

Board Meeting Agenda

Wednesday 30 October 2019

External Reporting Board, Level 7, 50 Manners Street, Wellington

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
For-profit Items for Approval					
11.00 am	4	Disclosure of Accounting Policies	(LK)		
	4.1	Cover memo	Consider	Paper	
	4.2	Comment letter	Approve	Paper	
	4.3	IASB ED/2016/6 <i>Disclosure of Accounting Policies</i> —Proposed Amendments to IAS 1 and IFRS Practice Statement 2	Note	Supp paper	
11.40 am	5	Interest Rate Benchmark Reform	(TC/JS)		
	5.1	Cover memo	Note	Paper	
	5.2	<i>Interest Rate Benchmark Reform</i>	Approve	Paper	
	5.3	Draft signing memorandum	Approve	Paper	
	5.4	Memo: Application of the PBE Policy Approach	Consider	Paper	
	5.5	ITC <i>PBE Interest Rate Benchmark Reform</i>	Approve	Paper	
	5.6	ED <i>PBE Interest Rate Benchmark Reform</i>	Approve	Paper	
	5.7	<i>Policy Approach to Developing the Suite of PBE Standards</i>	Note	Supp paper	
For-profit Item for Consideration					
12.00 pm	6	Primary Financial Statements	(DB/LK)		
	6.1	Cover memo	Note	Paper	
12.30 pm		<i>Lunch</i>			
For-profit Item for Noting					
1.00 pm	7	EER Update	(DB/LK)		
	7.1	Verbal update	Note	Verbal	
PBE Item for Noting					
1.20 pm	8	Editorial Corrections to PBE Standards	(JS)		
	8.1	Cover memo	Approve	Paper	

Est Time	Item	Topic	Objective		Page
Standard for Noting					
1.30 pm	9	Standards Approved	(VSF)		
	9.1	Approval 111 <i>2019 Omnibus Amendments to NZ IFRS</i>	Note	Paper	

Supporting papers

B: PUBLIC SESSION			
4	Disclosure of Accounting Policies		
4.3	IASB ED/2016/6 <i>Disclosure of Accounting Policies</i> —Proposed Amendments to IAS 1 and IFRS Practice Statement 2		
5	Interest Rate Benchmark Reform		
5.7	<i>Policy Approach to Developing the Suite of PBE Standards</i>		

Next NZASB meeting: Wednesday 4 December 2019



NZ ACCOUNTING
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BOARD

Memorandum

Date: 18 October 2019

To: NZASB Members

From: David Bassett and Lisa Kelsey

Subject: **Disclosure of Accounting Policies**

Recommendations¹

1. We recommend that the Board APPROVES the comment letter to the IASB on IASB ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2 (the ED) (see agenda item 4.2).

Background

2. The Board provided feedback on a draft comment letter at its September 2019 meeting. We have updated the comment letter to incorporate feedback received from the Board at that meeting.
3. We have also undertaken the following.
 - (a) Sought feedback from TRG members at the September meeting on the proposals, focusing on questions 1 to 3 of the ED. Feedback received from TRG members is summarised in the TRG report at agenda item 11.5. For ease of reference we have also included an extract from the TRG report in Appendix A to this memo.
 - (b) Sought feedback from the FMA on the proposals prior to the September Board meeting. We verbally shared this feedback with the Board at its September 2019 meeting.
 - (c) Provided staff preliminary views on the proposals to the AOSSG *Presentation and Disclosure Working Group*. We plan to share our final comment letter with this group.
4. The comment period for submissions to the NZASB closed on 7 October 2019. We have not received any comments from New Zealand constituents on the ED. Some New Zealand constituents may comment directly to the IASB.
5. Comments to the IASB close on the 29 November 2019.
6. During their trip to London, the NZASB Chair and Deputy Director Accounting Standards met with IASB technical staff to discuss the proposals in the ED. IASB staff clarified that the intention of the proposals is that accounting policies relating to a material transaction, other

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event or condition that explain how an entity has applied the requirements of IFRS Standards to the entity's specific facts and circumstances would likely be material – regardless of whether choice or judgement is involved.

Domestic standards

7. We have checked to see if any of our domestic standards refer to significant accounting policies. Paragraphs 28 and 60 of FRS 42 *Prospective Financial Statements* do refer to significant accounting policies. If the proposed amendments are issued by the IASB we would need to expose a consequential amendment to FRS 42 via an omnibus amendment.

IFRS Practice Statement 2

8. Our website has been updated to facilitate easier access to the IFRS practice statements. Constituents with an NZ IP address now have direct access to PDF versions of the IFRS practice statements, including IFRS Practice Statement 2.

Attachments

Agenda item 4.2: Draft comment letter

Agenda item 4.3: IASB ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2 (in supporting papers)

Appendix A

Extract from TRG Meeting Report September 2019

Disclosure of Accounting Policies

6. The TRG was asked to consider IASB ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2 (the ED). The TRG was asked to provide feedback on two staff questions and questions 1–3 from the ED.
7. The two staff questions the TRG members were asked to consider were:
 - Q1 Do you agree that accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed?
 - Q2 Where accounting policies relate to material transactions, other events or conditions, which statement below do you agree with?
 - (a) All accounting policies are themselves material and should be disclosed.
 - (b) Only accounting policies where choice or significant judgement is involved are material and should be disclosed.
 - (c) Accounting policies where choice or significant judgement is involved and those accounting policies that provide information about how an entity has applied IFRS requirements to its own facts and circumstances are material, and should be disclosed.
8. Feedback from members:
 - Agree in principle with not disclosing immaterial accounting policies. However, have concerns with materiality judgements around areas such as related parties. Related party disclosures is currently a sensitive area.
 - Agree, a lot of the standard and boiler plate accounting policies are not needed. However, concerns materiality judgements focus on quantitative factors and not qualitative factors.
 - Prima facie the IASB's proposals sound like a good idea, but users of some smaller entities may need accounting policies to understand how things have been accounted for. Not all users have the same level of knowledge when it comes to accounting standards.
 - If focus on 'material', some preparers will go with the minimum disclosures. Preparers don't always focus on the user needs. It then falls to the auditor to determine if the materiality judgements are reasonable.
 - Should align materiality from an auditor perspective (auditing standards) with that of accounting standards.
 - If materiality is applied appropriately then the proposals should work well. The key question is whether the IASB has provided sufficient and appropriate guidance for entities to make the right materiality judgements when it comes to accounting policies.

Agree that preparers will make materiality judgements as they see fit, but auditors need to challenge those judgements. Decent guidance will help with these discussions. If materiality judgements are made correctly then related party disclosures would be made where appropriate.

- Preparers do seem to focus on the quantum when making materiality judgements – maybe more education is needed in this space?
- A member felt that the IASB’s proposals were consistent with the staff view expressed in the memo that “information about an accounting policy for a material transaction, other event or condition can still be material even if no choices or judgements were involved.” The member thinks paragraph 117B(e) will capture these other policies. The member was not sure what staff thought the IASB’s proposals wouldn’t capture.
- There was some sympathy for the alternative view expressed by Mr Martin Edelmann.
- When you consider the examples in paragraph 117B(a) to (e), wondering what is left?
- Question 1 is a no-brainer; yes, immaterial accounting policies should not be disclosed. In regard to question 2, a member was sitting between (a) and (c) – you should disclose if relates to material transaction and this should not be limited to where there is a choice or judgement in relation to accounting policies. You must tailor your accounting policies to your own facts and circumstances.
- If you have a mid-tier company and they remove accounting policies, how will they keep track of consistent use of accounting policies year on year? If you remove accounting policies from the financial statements, they will forget what the policies were.
- Should share NZ experience with IASB. NZ entities have gone through the process of decluttering financial statements. We now have some succinct financial statements. The concern now is that entities are taking it too far and cutting out too much information that may be useful to users of the financial statements.

9. Questions 1–3 from the ED are set out below. We have summarised the feedback received under each question. Note that the majority of the feedback occurred when considering the separate staff questions (as outlined in the preceding paragraphs).

Question 1
<p>The Board proposes to amend paragraph 117 of IAS 1 to require entities to disclose their ‘material’ accounting policies instead of their ‘significant’ accounting policies.</p> <p>Do you agree with this proposed amendment? If not, what changes do you suggest and why?</p>

10. Members agreed with this proposed amendment, subject to the IASB providing sufficient and appropriate guidance on making materiality judgements in relation to accounting policies.

Question 2

The proposed new paragraph 117A of IAS 1 states that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements.

Do you agree with this proposed statement? If not, what changes do you suggest and why?

11. Members agreed that not all the 'information' about an accounting policy relating to material transactions, other events or conditions, is itself material.

Question 3

The proposed new paragraph 117B of IAS 1 lists examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements.

Do the proposed examples accurately and helpfully describe such circumstances? If not, what changes do you suggest and why?

12. Members were broadly comfortable with the examples in paragraphs 117B (a) to (d). A member commented that when he read 117B (e), his first reaction was "wasn't that what every accounting policy should do?"
13. Another member commented that paragraph 117B (e) is not really an example; it is more a principle. The member suggested we consider suggesting to the IASB that this is removed from list of examples and highlighted in a separate paragraph. The member noted that if the IASB did remove (e) from the list of examples, paragraph 117B would have to clearly state that the list of examples was NOT an exhaustive list.



NZ ACCOUNTING
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30 October 2019

Mr Hans Hoogervorst
Chairman of the International Accounting Standards Board
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Submitted to: www.ifrs.org

Dear Hans

ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2

Thank you for the opportunity to comment on ED/2019/6 *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2 (the ED). The ED has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

We are very supportive of the IASB's projects to help make financial information more useful and improve the way financial information is communicated to users of the financial statements.

We are broadly supportive of the proposals contained in the ED and welcome the proposal to require entities to disclose their *material* accounting policies. This proposal is consistent with the NZASB's recommendation to the IASB in our 2017 comment letter on DP/2017/1 *Disclosure Initiative—Principles of Disclosure* (POD DP).

We believe it is important that there is sufficient and clear guidance to assist entities in making materiality judgements about accounting policy disclosures.

Over the last few years a number of New Zealand companies have undertaken streamlining initiatives to declutter their financial statements. Although this is a pleasing development, we have recently heard concerns that some entities may have taken this too far and are now omitting material information.

Reflecting on the New Zealand experience, we consider that in the absence of sufficient and clear guidance, entities may fail to disclose the information needed by users to understand material transactions, other events or conditions.

We believe the proposals need to be revised to clarify that entity-specific information about accounting policies relating to material transactions, other events or conditions can be material, even when the entity is simply applying the requirements of an IFRS Standard. Information about accounting policies may be material when it is needed for users to understand how the entity has applied the requirements in IFRS Standards to its own facts and circumstances, even when there is no choice or judgement involved in applying those requirements.

Our detailed recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter.

If you have any queries or require clarification of any matters in this letter, please contact Lisa Kelsey (Lisa.Kelsey@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook
Chair – New Zealand Accounting Standards Board

Appendix to *Disclosure of Accounting Policies*—Proposed amendments to IAS 1 and IFRS Practice Statement 2

Question 1

The Board proposes to amend paragraph 117 of IAS 1 to require entities to disclose their ‘material’ accounting policies instead of their ‘significant’ accounting policies.
Do you agree with this proposed amendment? If not, what changes do you suggest and why?

We agree with the IASB’s proposal to amend paragraph 117 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their *material* accounting policies instead of their *significant* accounting policies. This proposal is consistent with the NZASB’s recommendation to the IASB in our 2017 comment letter on the POD DP.

Similar to the feedback the IASB has received, the NZASB has also received feedback that the use of *significant*, an undefined term, causes confusion in practice, and stakeholders have differing views about what constitutes a *significant* accounting policy. We believe that requiring the disclosure of *material* accounting policies would place greater emphasis on the application of materiality when making accounting policy disclosures.

We agree with the IASB’s view (outlined in paragraph BC7 of the ED’s Basis for Conclusions (BC)) that the concept of materiality can be applied in making decisions about the disclosure of accounting policies. As noted in paragraph IN3 of IFRS Practice Statement 2 *Making Materiality Judgements* “the need for materiality judgements is a pervasive concept in the preparation of financial statements. An entity makes materiality judgement when making decisions about recognition and measurement as well as presentation and disclosure.”

We believe information about accounting policies can affect users’ understanding and analysis of other material information in the financial statements and therefore has the potential to [reasonably be expected to] influence decisions that primary users of general purpose financial statements make.

Therefore, we agree that *information about an accounting policy is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.*

However, we do not agree that it is necessary to add the italicised sentence above, which essentially replicates part of the definition of material, to paragraph 117. Rather, we would prefer paragraph 117 to read as follows.

117 An entity shall disclose its material accounting policies. An accounting policy is material if information about that accounting policy is needed for a user to understand other material information in the financial statements.

We are comfortable with the proposed deletion from paragraph 117 of the reference to “measurement basis (or bases) used in preparing the financial statements” and “other accounting policies used that are relevant to an understanding of the financial statement”. We agree with the

IASB's view that this deletion will better enable preparers to apply judgement and disclose only that accounting policy information which is assessed as being material to the financial statements.

Question 2

The proposed new paragraph 117A of IAS 1 states that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements.

Do you agree with this proposed statement? If not, what changes do you suggest and why?

We recommend that paragraph 117A is reworded to state "not all information about accounting policies relating to material transactions, other events or conditions is material to an entity's financial statements".

We believe that, more often than not, information about how an entity has applied the requirements in IFRS Standards to its own facts and circumstances would be material to the understanding of material transactions, other events or conditions – even if no significant judgements or choice were involved.

As noted in the POD DP (paragraph 6.13) and the alternative view of Mr Martin Edelmann, users of financial statements are not expected to be IFRS experts/accounting experts. Therefore, information that could help users understand and analyse other material information in the financial statements is likely to be material itself as it has the potential to [reasonably be expected to] influence decisions that primary users of general purpose financial statements make. However, we are not implying it is the role of the preparer of financial statements to educate users on requirements contained in IFRS Standards.

We believe our suggested amendment to paragraph 117A would give preparers more confidence to make materiality judgements in relation to the information an entity discloses about its accounting policies for material transactions, other events or conditions.

For example, an entity that has a material class of property, plant and equipment but has not had material additions or disposals during the reporting period may have more confidence to conclude that although disclosing the measurement basis of that class of property, plant and equipment would be material, disclosing information about its accounting policy for additions and disposals would not be material.

We also believe this clarification would avoid confusion about what is meant by the term "accounting policies". Often multiple accounting policies relating to a particular transaction, other event or condition are collectively described as *an accounting policy*. For example, the accounting policy for property, plant and equipment can comprise accounting policies for depreciation, revaluations, additions etc. It is important to be clear what is meant by an accounting policy as this will affect what information is required to be disclosed.

We agree that accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. This is consistent with the NZASB's view that the disclosure of immaterial accounting policies should not be required (but also not prohibited) – this view was expressed in the NZASB's comment letter on the POD DP.

Question 3

The proposed new paragraph 117B of IAS 1 lists examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements.

Do the proposed examples accurately and helpfully describe such circumstances? If not, what changes do you suggest and why?

We believe that the inclusion of the proposed examples in IAS 1 is useful and will help preparers make better materiality judgements about accounting policy disclosures.

Including these examples in IAS 1 will give the examples authoritative status and greater transparency than if they were merely included in IFRS Practice Statement 2. However, we have the following concerns with the examples proposed in paragraph 117B.

We believe that these ‘examples’ would be better described as qualitative factors. We note Example S on page 13 of the ED already refers to these ‘examples’ as qualitative factors.¹

We agree with the examples provide in paragraph 117B(b)–(d). However, we believe that the lead in to these ‘examples’ should clarify that they indicate when information about an accounting policy may be material – as opposed to an accounting policy in its entirety.

In regard to paragraph 117B(a) we suggest the IASB considers removing the last part of the sentence (which reads “and this change resulted in a material change to the amounts included in the financial statements”). In our view information about changes in accounting policies for material items could be needed for a user to understand information about that material item – irrespective of whether the change resulted in a material change to the amounts included in the financial statements. We have concerns that the reference to “amounts included in the financial statements” may place undue emphasis on the quantitative assessment of materiality.

In our view paragraph 117B(e) as currently drafted is confusing. We believe that paragraph 117B(e) describes what every entity should do when applying the requirements of an IFRS Standard – i.e. apply the requirements of an IFRS Standard in a way that reflects the entity’s specific circumstances. Our understanding of the intent of paragraph 117B(e) is to emphasise that entity-specific information about accounting policies can be material, even when the entity is simply applying the requirements of an IFRS Standard, if it explains how the entity has applied the requirements to its own facts and circumstances.

Therefore, we recommend 117B(e) is revised to clearly capture information about an accounting policy that relates to material transactions, other events or conditions and “is needed to understand how an entity has applied requirements in IFRS Standards to the entity’s specific facts and circumstances.”

¹ Extract from Example S on page 13 of the ED:

The entity evaluates the effect of disclosing the accounting policies by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies:

- (a) were not changed during the reporting period;
- (b) were not chosen from alternatives in IFRS Standards; and
- (c) were not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies.

Question 4

The Board proposes to add to IFRS Practice Statement 2 two examples that illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures. Are these examples useful and do they demonstrate effectively how the concept of materiality can be applied in making decisions about accounting policy disclosures? If not, what changes do you suggest and why?

Example S

We agree Example S is useful and will provide helpful guidance for preparers.

However, we suggest it would be helpful if the conclusion was revised to clearly illustrate that information about the allocation of revenue (under paragraph 117B(d) of the ED) and information about the timing of the revenue (under paragraph 117B(e) of the ED) could be material.

Example T

We agree example T is useful to illustrate why accounting policies that duplicate requirements from IFRS Standards or duplicate information provided elsewhere in the financial statements are not useful. However, as the example is currently worded, we have concerns it may be interpreted too broadly, resulting in the potential loss of material information.

We suggest it would be helpful if this example is expanded to illustrate:

- (i) how a generic accounting policy could be redrafted to be entity-specific and provide information about how an entity has applied IFRS Standards to its facts and circumstances; and
- (ii) that not all information relating to an accounting policy is in fact material. For example, if the entity has material intangible assets but does not have a material goodwill balance, information about its accounting policies relating to goodwill is unlikely to be material and need not be disclosed.

Other comments on proposed amendments to IFRS Practice Statement 2

We are not clear how paragraph 88C and the process illustrated in the diagram fits into the four-step materiality process described in paragraph 33. We recommend that the IASB clarify this.

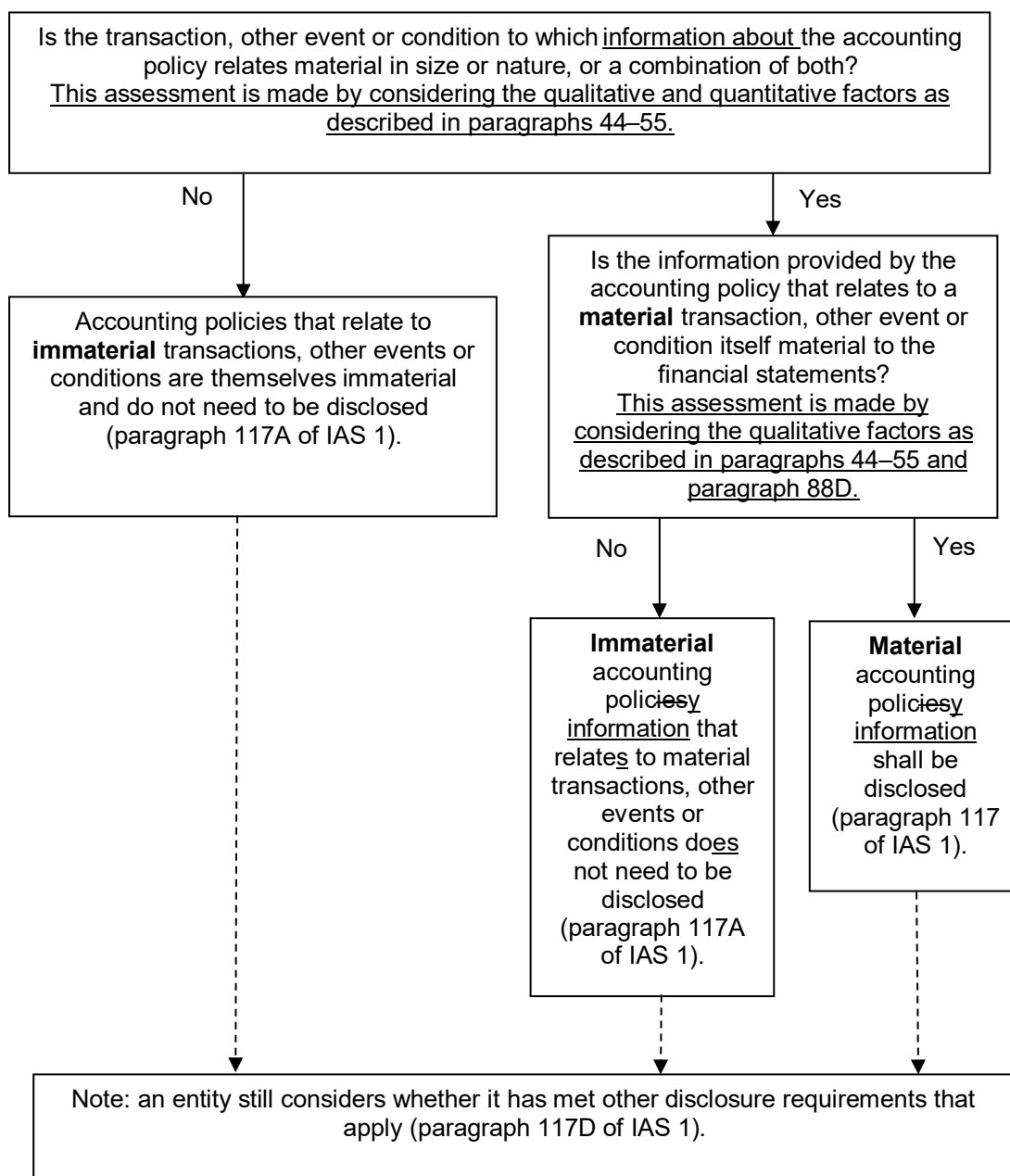
We are also not clear how paragraph 88D fits into the process illustrated in the diagram. Paragraph 88C states “This assessment is made in the same way as for other information – by considering qualitative and quantitative factors as described in paragraphs 44–55”. We would expect paragraph 88C to refer to the qualitative factors described in paragraph 88D when an entity is making materiality judgements in relation to information about accounting policies. Our interpretation is that the qualitative factors in paragraph 88D are additional to those qualitative and quantitative factors described in paragraphs 44–55. We recommend that the IASB clarify this.

Following on from our comments above, we have not found the proposed diagram particularly helpful. However, we do not have any strong objection against it being included in IFRS Practice Statement 2. To improve the helpfulness of the diagram, we recommend that the IASB consider adding cross-references to the relevant paragraphs in the Practice Statement to each step in the diagram (suggested edits on next page).

Our comments in response to question 3 above are also applicable to the proposed paragraph 88D(a)–(e).

Some suggested edits based on our understanding of the assessment (proposed new text is underlined and deleted text is struck through).

Diagram—determining whether ~~an~~ information about an accounting policy is material



Question 5

Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?

Other than what has been noted elsewhere in our comment letter, we have not identified any wording or terminology in the proposed amendments that is difficult to understand.

We cannot comment on the difficulty of translation as the NZASB does not translate IFRS Standards into any other languages.

Question 6

Do you have any other comments about the proposals in this Exposure Draft?

Disclosure objective

In our 2017 comment letter on the POD DP, the NZASB supported the use of disclosure objectives. We believe that if preparers had better clarity around the objective of accounting policy disclosures, they would be able to make better materiality judgements about such disclosures. We therefore recommend that the IASB considers developing a disclosure objective for the disclosure of information about accounting policies.

Paragraph 117C

Many entities in New Zealand have already taken steps to improve the communication effectiveness of their financial statements. For many, this has included relocating the disclosure of significant accounting policies, judgements and estimates to the related notes and tailoring these disclosures to be entity-specific. We have found that entity-specific accounting policies disclosed by many of these entities have been more useful than boilerplate disclosures for an understanding of the financial statements.

We agree information about accounting policies that focuses on how an entity has applied the requirements in IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards. Therefore, we agree with the proposed addition of paragraph 117C.

Amendments to other Standards and publications

We note the IASB's conclusion in paragraph BC16 that "amendments to other requirements in IFRS Standards are therefore not necessary".

Paragraph BC22 of IAS 8 *Accounting Policies, Changes in Estimates and Errors* (extract below), states that IAS 8 specifies the application of materiality in applying accounting policies and correcting errors. Paragraphs 28 to 31 of IAS 8 set out disclosure requirements when there is a change of accounting policies.

BC22 The application of the concept of materiality is set out in two Standards. IAS 1 (as revised in 2007) continues to specify its application to disclosures. IAS 8 specifies the application of materiality in applying accounting policies and correcting errors (including errors in measuring items).

The proposals in the ED introduce requirements relating to the application of the concept of materiality to the disclosure of accounting policies. For the avoidance of doubt, we suggest that the IASB clarifies how materiality judgements in relation to the disclosure of accounting policies under IAS 1 (per the proposed amendments) relate to materiality judgements about the disclosure of *changes in* accounting policies made under IAS 8.

Basis for Conclusions

We recommend that the IASB review the Basis of Conclusions to ensure its conclusions are clearly articulated. The IASB's views expressed in paragraph BC7 seems to be at odds with the last two sentences in BC11. Paragraph BC 11 seems to suggest that choice or judgement is needed for an accounting policy to be judged as material to the financial statements.

Editorials

IFRS Standard or publication	Paragraph reference
IFRS Practice Statement 2—Making Materiality Judgements	Paragraph IN4 (c) add in new specific topic “information about accounting policies”



NZ ACCOUNTING
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Memorandum

Date: 18 October 2019
To: NZASB Members
From: Tracey Crookston
Subject: *Interest Rate Benchmark Reform*

Action required¹

1. The Board is asked to APPROVE for issue *Interest Rate Benchmark Reform* which is an amending standard that amends NZ IFRS 9 *Financial Instruments*, NZ IAS 39 *Financial Instruments: Recognition and Measurement* and NZ IFRS 7 *Financial Instruments: Disclosures*).
2. A separate memo (see agenda item 5.4) considers whether the Board should propose equivalent amendments to PBE Standards.

Background

3. The background to the reform of interest rate benchmarks is set out in the signing memo at agenda item 5.3. We have not duplicated all the background information in this memo.
4. As a result of the reform, some interest rate benchmarks such as the London Inter-bank Offered Rate (LIBOR) are being phased out, alternative risk free rates are being established, and other benchmarks are being strengthened. Interest rate benchmarks are referred to in loan agreements and derivative contracts and many entities have had to update agreements to refer to new replacement rates. As explained in the signing memo, the New Zealand dollar (NZD) Bank Bill Benchmark Rate (BKBM) is based on transaction data, rather than interbank offers, and is largely unaffected by the international reforms.
5. Uncertainties regarding what the alternative benchmark will be and when the replacement will occur could result in discontinuation of hedge accounting. The IASB considered that discontinuation of hedge accounting solely due to such uncertainties would not provide useful information. Following feedback received the IASB agreed to amend IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* to provide an exception from certain hedge accounting requirements.

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IASB ED/2019/1 *Interest Rate Benchmark Reform*

6. The IASB issued Exposure Draft ED/2019/1 *Interest Rate Benchmark Reform* in May 2019. Comments on the proposed changes were requested by 17 June 2019. The IASB issued the final amendments in September 2019.
7. The ED proposed to modify specific hedge accounting requirements so that entities applying those requirements would ignore the effect of uncertainty due to interest rate benchmark reform when making forward looking assessments. These exceptions would be mandatory for the period of the uncertainty. The hedge accounting requirements for which the ED proposed exceptions were:
 - (a) the highly probable requirement;
 - (b) prospective assessments;
 - (c) IAS 39 retrospective assessment; and
 - (d) separately identifiable risk components.
8. The ED also proposed to require disclosures about the hedging relationships to which an entity has applied the amendments.
9. There was a general consensus among respondents that the proposals in the ED should be finalised and published as soon as possible and that any issue that could potentially result in a re-exposure of the proposals in the ED should be dealt with as part of the next phase of the project.
10. The IASB considered responses in July and August 2019. The IASB's deliberations from its August 2019 meeting, and the changes to the proposals, are set out in Appendix 1 to this memo.
11. The IASB issued *Interest Rate Benchmark Reform* in September 2019. The amendments are effective for annual periods beginning on or after 1 January 2020 with early application permitted. In the case of NZ IFRS 9 the amendments are to be applied retrospectively but only to hedging relationships or reserve balances that existed at the beginning of the reporting period in which an entity first applies the relevant requirements or were subsequently designated as hedging relationships.

RDR concessions and consistency with Australian accounting standards

12. The amending standard adds new disclosure requirements to NZ IFRS 7, in respect of the hedging relationships to which an entity applies the new exceptions in NZ IFRS 9 and NZ IAS 39. The new disclosure requirements are simpler than what was proposed in the ED. The IASB has also exempted entities from making the disclosures required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for the period in which an entity first applies the new exceptions. This disclosure would have required that entities identify the amount of the adjustment for each line item affected.

13. We are not proposing any RDR concessions in relation to the new disclosures. For the Board's information we have shown paragraph 24A (which has a partial RDR concession in relation to nominal amounts) along with the new paragraph 24H which also requires disclosure of the nominal amount of instruments in an affected hedge relationship.

Extracts from NZ IFRS 7 (emphasis added)

24A An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):

- (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);
- *(b) the line item in the statement of financial position that includes the hedging instrument;
- (c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and
- *(d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.

RDR 24A.1 A Tier 2 entity is not required to make the disclosures required by paragraph 24A in a tabular format.

...

Uncertainty arising from interest rate benchmark reform

24H For hedging relationships to which an entity applies the exceptions set out in paragraphs 6.8.4–6.8.12 of NZ IFRS 9 or paragraphs 102D–102N of NZ IAS 39, an entity shall disclose:

- (a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;
- (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
- (c) how the entity is managing the process to transition to alternative benchmark rates;
- (d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and
- (e) the nominal amount of the hedging instruments in those hedging relationships.

14. In our opinion few (if any) Tier 2 entities will be required to make the disclosures introduced by the amending standard as not all Tier 2 entities will be hedging interest rate risk and, of those that do, the new disclosures are required only in respect of hedging relationships to which an entity applies the new exceptions. If there is no reform-related uncertainty (for example, because the interest rate benchmark-based cash flows were not affected by the reform or the entity has already updated its agreements), the entity would not apply the new exceptions, nor would it make the associated disclosures.
15. The Australian Accounting Standards Board (AASB) recently issued equivalent amendments to Australian Accounting Standards. AASB staff have indicated that they also plan to seek confirmation from the AASB that there should be no RDR concessions for the additional disclosure requirements. Therefore, the Tier 1 and Tier 2 for-profit reporting requirements will continue to be aligned with those in Australia.

Due process

16. Following consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2019/1 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's August 2019 meeting.²
17. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
18. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft amending standard and signing memo

19. Attached as agenda item 5.2 is a copy of *Interest Rate Benchmark Reform*.
20. Attached as agenda item 5.3 is a draft certificate signing memorandum from the Chair of the NZASB to the Chair of the XRB Board.

Are equivalent amendments to PBE Standards required?

21. A separate memo (see agenda item 5.4) considers whether the Board should propose equivalent amendments to PBE Standards. In the event that the Board decides to do so, the agenda papers include a draft Invitation to Comment and Exposure Draft proposing equivalent amendments to PBE Standards (see agenda items 5.5 and 5.6).

Recommendations

22. We recommend that the Board:
 - (a) APPROVES for issue *Interest Rate Benchmark Reform*;
 - (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the amending standard; and
 - (c) CONSIDERS whether equivalent amendments to PBE Standards are required (see agenda item 5.4).

² A summary of the IASB's August 2019 IBOR deliberations is available at: [IASB Update August 2019](#)

Attachments

- Agenda item 5.2: Draft *Interest Rate Benchmark Reform*
- Agenda item 5.3: Draft signing memorandum
- Agenda item 5.4: Memo: Application of the PBE Policy Approach
- Agenda item 5.5 Draft ITC *PBE Interest Rate Benchmark Reform*
- Agenda item 5.6 Draft ED *PBE Interest Rate Benchmark Reform*
- Agenda item 5.7 *Policy Approach to Developing the Suite of PBE Standards* (supporting papers)

Appendix 1: IASB deliberations – 28 August 2019 meeting

IAS 39 exception for retrospective assessment
IAS 39 should be amended to provide an exception for retrospective assessment, so that, during the period of uncertainty arising from the reform of interest rate benchmarks, an entity would continue to apply hedge accounting to a hedging relationship for which effectiveness is outside the 80–125% range.
Macro Hedges
For ‘macro hedges’ designated under either IFRS 9 or IAS 39, an entity should assess whether a non-contractually specified risk component is separately identifiable only when the hedged item is initially designated within the ‘macro hedge’. Once a hedged item has been designated within a ‘macro hedge’, there should be no reassessment of whether the risk component is separately identifiable at any subsequent redesignation(s) of that hedged item in the same hedging relationship.
End of Application Requirement – Application to the hedged item (when a group of items are designated as the hedged item)
The final amendments to IFRS 9 and IAS 39 should clarify that, when an entity designates a group of items as the hedged item in accordance with paragraph 6.6.1 of IFRS 9 or paragraph 83 of IAS 39, the end of application requirement proposed in the Exposure Draft should apply to each item within the designated group of items.
Scope of the exceptions to be clarified
The scope of the proposed exceptions should be clarified so the exceptions apply only to those hedging relationships directly affected by uncertainties about the timing or amount of interest rate benchmark-based cash flows of the hedged item or hedging instrument arising from the reform.
Exemptions from IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (paragraph 28(f))
<p>Entities should be exempt from the disclosure requirements in paragraph 28(f) of IAS 8 upon the initial application of the amendments. The disclosure requirements accompanying the proposed exceptions should also be simplified so that only the following information is required in the notes to the financial statements for hedging relationships directly affected by the interest rate benchmark reform:</p> <ul style="list-style-type: none"> (a) a description of the significant interest rate benchmarks to which the entity’s hedging relationships are exposed; (b) an explanation of how the entity is managing its transition to using an alternative interest rate benchmark; (c) an explanation of significant assumptions or judgements the entity made in applying the exceptions to those hedging relationships within the scope of the amendments; and (d) the nominal amount of the hedging instruments and the extent of risk exposure the entity manages that is affected by the reform.

INTEREST RATE BENCHMARK REFORM



Interest Rate Benchmark Reform

Issued November 2019

This Standard was issued on 7 November 2019 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 5 December 2019.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in Part F.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 For-profit Accounting Standard is based on amendments issued by the International Accounting Standards Board to support the provision of useful financial information by entities during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs).

INTEREST RATE BENCHMARK REFORM

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INTEREST RATE BENCHMARK REFORM

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The following is available within New Zealand on the XRB website as additional material

APPROVAL BY THE IASB OF *INTEREST RATE BENCHMARK REFORM* ISSUED IN SEPTEMBER 2019

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IFRS 9 *FINANCIAL INSTRUMENTS*

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IAS 39 *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IFRS 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

Part A – Introduction

This Standard sets out amendments to support the provision of useful financial information by entities applying hedge accounting during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as IBORs.

Tier 2 entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to NZ IFRS 9 *Financial Instruments*

Paragraphs 6.8.1–6.8.12 and 7.1.8 are added. A new heading is added before paragraph 6.8.1. New subheadings are added before paragraphs 6.8.4, 6.8.5, 6.8.6, 6.8.7 and 6.8.9. These paragraphs have not been underlined for ease of reading.

Paragraph 7.2.26 is amended. New text in this paragraph is underlined.

Chapter 6 Hedge accounting

...

6.8 Temporary exceptions from applying specific hedge accounting requirements

- 6.8.1 An entity shall apply paragraphs 6.8.4–6.8.12 and paragraphs 7.1.8 and 7.2.26(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:
- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
 - (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.
- 6.8.2 For the purpose of applying paragraphs 6.8.4–6.8.12, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.¹
- 6.8.3 Paragraphs 6.8.4–6.8.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges

- 6.8.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 6.3.3, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the amount accumulated in the cash flow hedge reserve

- 6.8.5 For the purpose of applying the requirement in paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessing the economic relationship between the hedged item and the hedging instrument

- 6.8.6 For the purpose of applying the requirements in paragraphs 6.4.1(c)(i) and B6.4.4–B6.4.6, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually

¹ The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

INTEREST RATE BENCHMARK REFORM

or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a component of an item as a hedged item

- 6.8.7 Unless paragraph 6.8.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.
- 6.8.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of application

- 6.8.9 An entity shall prospectively cease applying paragraph 6.8.4 to a hedged item at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) when the hedging relationship that the hedged item is part of is discontinued.
- 6.8.10 An entity shall prospectively cease applying paragraph 6.8.5 at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
 - (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to profit or loss.
- 6.8.11 An entity shall prospectively cease applying paragraph 6.8.6:
- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.
- If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 6.8.11(a) or the date specified in paragraph 6.8.11(b), the entity shall prospectively cease applying paragraph 6.8.6 to that hedging relationship at the date of discontinuation.
- 6.8.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 6.8.4–6.8.6 to an individual item or financial instrument in accordance with paragraphs 6.8.9, 6.8.10, or 6.8.11, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Chapter 7 Effective date and transition

7.1 Effective date

- ...
- 7.1.8 *Interest Rate Benchmark Reform*, which amended NZ IFRS 9, NZ IAS 39 and NZ IFRS 7, issued in November 2019, added Section 6.8 and amended paragraph 7.2.26. An entity shall apply these amendments

INTEREST RATE BENCHMARK REFORM

for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 Transition

...

Transition for hedge accounting (Chapter 6)

...

7.2.26 As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

...

- (d) shall apply the requirements in Section 6.8 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

Part D – Amendments to NZ IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraphs 102A–102N and 108G are added. A new heading is added before paragraph 102A. New subheadings are added before paragraphs 102D, 102E, 102F, 102H and 102J. These paragraphs have not been underlined for ease of reading.

Hedging

...

Temporary exceptions from applying specific hedge accounting requirements

- 102A An entity shall apply paragraphs 102D–102N and 108G to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:
- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
 - (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.
- 102B For the purpose of applying paragraphs 102D–102N, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.²
- 102C Paragraphs 102D–102N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges

- 102D For the purpose of applying the requirement in paragraph 88(c) that a forecast transaction must be highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the cumulative gain or loss recognised in other comprehensive income

- 102E For the purpose of applying the requirement in paragraph 101(c) in order to determine whether the forecast transaction is no longer expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Effectiveness assessment

- 102F For the purpose of applying the requirements in paragraphs 88(b) and AG105(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

² The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

INTEREST RATE BENCHMARK REFORM

- 102G For the purpose of applying the requirement in paragraph 88(e), an entity is not required to discontinue a hedging relationship because the actual results of the hedge do not meet the requirements in paragraph AG105(b). For the avoidance of doubt, an entity shall apply the other conditions in paragraph 88, including the prospective assessment in paragraph 88(b), to assess whether the hedging relationship must be discontinued.

Designating financial items as hedged items

- 102H Unless paragraph 102I applies, for a hedge of a non-contractually specified benchmark portion of interest rate risk, an entity shall apply the requirement in paragraphs 81 and AG99F—that the designated portion shall be separately identifiable—only at the inception of the hedging relationship.
- 102I When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 81 and AG99F—that the designated portion is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of application

- 102J An entity shall prospectively cease applying paragraph 102D to a hedged item at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) when the hedging relationship that the hedged item is part of is discontinued.
- 102K An entity shall prospectively cease applying paragraph 102E at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
 - (b) when the entire cumulative gain or loss recognised in other comprehensive income with respect to that discontinued hedging relationship has been reclassified to profit or loss.
- 102L An entity shall prospectively cease applying paragraph 102F:
- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.
- If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 102L(a) or the date specified in paragraph 102L(b), the entity shall prospectively cease applying paragraph 102F to that hedging relationship at the date of discontinuation.
- 102M An entity shall prospectively cease applying paragraph 102G to a hedging relationship at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or of the hedging instrument; and
 - (b) when the hedging relationship to which the exception is applied is discontinued.
- 102N When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 102D–102G to an individual item or financial instrument in accordance with paragraphs 102J, 102K, 102L, or 102M, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Effective date and transition

...

- 108G *Interest Rate Benchmark Reform*, which amended NZ IFRS 9, NZ IAS 39 and NZ IFRS 7, issued in November 2019, added paragraphs 102A–102N. An entity shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies these amendments.

Part E – Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 24H and 44DE–44DF are added and a subheading is added before paragraph 24H. These paragraphs have not been underlined for ease of reading.

Hedge accounting

...

Uncertainty arising from interest rate benchmark reform

- 24H For hedging relationships to which an entity applies the exceptions set out in paragraphs 6.8.4–6.8.12 of NZ IFRS 9 or paragraphs 102D–102N of NZ IAS 39, an entity shall disclose:
- (a) the significant interest rate benchmarks to which the entity’s hedging relationships are exposed;
 - (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
 - (c) how the entity is managing the process to transition to alternative benchmark rates;
 - (d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and
 - (e) the nominal amount of the hedging instruments in those hedging relationships.

Effective date and transition

...

- 44DE *Interest Rate Benchmark Reform*, which amended NZ IFRS 9, NZ IAS 39 and NZ IFRS 7, issued in November 2019, added paragraphs 24H and 44DF. An entity shall apply these amendments when it applies the amendments to NZ IFRS 9 or NZ IAS 39.
- 44DF In the reporting period in which an entity first applies *Interest Rate Benchmark Reform*, issued in November 2019, an entity is not required to present the quantitative information required by paragraph 28(f) of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Part F – Effective Date

This Standard shall be applied for annual periods beginning on or after 1 January 2020. Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 30 October 2019

To: Michele Embling, Chair External Reporting Board

From: Kimberley Crook, Chair NZASB

Subject: *Interest Rate Benchmark Reform*

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Interest Rate Benchmark Reform* which is an amending standard that will amend NZ IFRS 9 *Financial Instruments*, NZ IAS 39 *Financial Instruments: Recognition and Measurement* and NZ IFRS 7 *Financial Instruments: Disclosures*.
2. The proposed amending standard is equivalent to the IASB's amending standard of the same name.

Background to IBOR reform

3. Following a request by the G20² to undertake a fundamental review of major interest benchmarks, in 2014 the Financial Stability Board published a report setting out recommendations to reform major interest rate benchmarks, including interbank offer rates (IBORs).³ The recommendations included measures to:
 - (a) strengthen IBORs, in particular by anchoring them to a greater number of transactions, where possible;
 - (b) improve the processes and controls around the submission of rates by banks;
 - (c) identify alternative near-risk free rates (RFRs);⁴ and
 - (d) encourage derivative market participants to transition new contracts to an appropriate RFR, where suitable.

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² The Group of 20, an international forum for governments and central bank governors, was concerned about the reliability and robustness of some existing interest rate benchmarks following cases of attempted market manipulation, together with the post-crisis decline in liquidity in interbank unsecured funding markets.

³ Financial benchmarks are figures or indexes, such as interest rates, that are referenced in financial products or contracts to set the price or determine the value of those financial products.

⁴ In this context the term risk free refers to rates calculated on an overnight secured or unsecured basis with no built-in term or liquidity premia.

4. Many jurisdictions, including the European Union (EU), have since taken steps to implement those recommendations. In June 2016 the EU published new regulations relating to financial benchmarks.⁵ In order to comply with global benchmark regulation and especially European Union Benchmark Regulation (EU BMR), a benchmark's administration processes must meet an equivalence standard prescribed by the European Council before it can be registered as an EU compliant benchmark. Amongst other things, this means that benchmarks must meet the International Organization of Securities Commissions (IOSCO) Principles for Benchmarks and there must be a 'Competent Authority' based in the jurisdiction that administers a licensing regime for benchmark administrators.
5. As a result of these reforms, some benchmarks such as LIBOR are being phased out, alternative RFRs are being established, and other benchmarks are being strengthened to meet the new requirements. Interest rate benchmarks are often referred to in loan agreements and derivative contracts and many entities will have to update agreements to refer to new replacement rates.
6. Because the New Zealand dollar (NZD) Bank Bill Benchmark Rate (BKBM) is based on transaction data, rather than interbank offers, it has been largely unaffected by the international reforms. However, the reforms, along with the EU regulations, have led to some changes in New Zealand, including the establishment of a licensing regime for administrators of financial benchmarks.⁶ The Financial Markets Authority (FMA) is now responsible for licencing, monitoring and enforcement of financial benchmark administration.

The amendments

7. The IASB's amendments deal with only a very limited aspect of IBOR reform. The objective of the amendments is to avoid situations where hedge accounting would need to be discontinued as a result of uncertainties related to the IBOR transition and, in particular, due to the inability to meet specific forward-looking hedge accounting requirements.
8. The amendments provide relief from the highly probable and prospective assessments required by IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* insofar as these tests relate to hedging relationships that are affected by the uncertainties of the IBOR reform. The amendments also provide relief from the retrospective assessment under IAS 39. The exceptions described in the amendments apply only to those hedging relationships directly affected by uncertainties of the IBOR reform including cross-

⁵ European Union Benchmark Regulation.

⁶ The *Financial Markets (Derivatives Margin and Benchmarking) Reform Amendment Act 2019* received royal assent on 30 August 2019. Part 1 of the Act sets out amendments relating to derivative margins and was enacted to allow prescribed entities such as registered banks and ACC to continue to enter into over-the-counter derivatives with EU counterparties. Part 2 of the Act introduces a licensing regime for administrators of financial benchmarks.

The New Zealand Financial Markets Association, the existing benchmark administrator, is assessing the most appropriate benchmark administration structure for the New Zealand financial markets in accordance with the new benchmark administration licensing regime. The Association has consulted on a fall-back benchmark interest rate for BKBM, which is one of the requirements to comply with the IOSCO Principles for Financial Benchmarks and ensure that BKBM meets EU BMR equivalence from January 2020.

currency interest rate swaps (for the interest component affected). The exceptions are mandatory for the period that the uncertainty exists.

9. The amendments fall under Phase I of the IASB's IBOR project and have dealt with pre-replacement issues. Phase II of the project will look at potential financial reporting implications when an existing interest rate benchmark is replaced with an alternative interest rate (i.e. replacement issues).

Due process

10. The IASB issued Exposure Draft ED/2019/1 *Interest Rate Benchmark Reform* (which proposed amendments to IFRS 9 and IAS 39) in May 2019.
11. Due to the very short comment period of 45 days, the NZASB asked constituents to comment directly to the IASB. Comments were due to the IASB on 17 June 2019.
12. The IASB received 84 responses, including responses from the Australian Accounting Standards Board (AASB) and CPA Australia. Most respondents welcomed the IASB's timely response to pre-replacement issues and broadly supported the proposed amendments. There was a general consensus that the proposals should be finalised as soon as possible with any further issues being addressed in Phase II of the project.
13. As a result of considering comments from constituents the IASB made some changes to its proposals. For example, the IASB agreed to:
 - (a) clarify that the exceptions apply only to those hedging relationships directly affected by uncertainties about the timing or amount of interest rate benchmark-based cash flows of the hedged item or hedging instrument arising from the reform;
 - (b) amend IAS 39 to provide an exception for retrospective assessment so that, during the period of uncertainty arising from the reform of interest rate benchmarks, an entity would continue to apply hedge accounting to a hedging relationship for which effectiveness is outside the 80–125% range; and
 - (c) simplify the disclosures required (and locate them in IFRS 7 *Financial Instruments: Disclosures*).
14. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2019/1 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB meeting in August 2019.⁷
15. The IASB issued *Interest Rate Benchmark Reform* in September 2019. This amending standard is effective for annual periods beginning on or after 1 January 2020 with early application permitted. The IASB has also exempted entities from making the disclosures required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for

⁷ A summary of the IASB's August 2019 IBOR deliberations is available at: [IASB Update August 2019](#)

the period in which an entity first applies the new exceptions. This disclosure would have required that entities identify the amount of the adjustment for each line item affected.

16. The NZASB has approved *Interest Rate Benchmark Reform*. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
17. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

18. The amending standard is a standard in its own right. The New Zealand amending standard *Interest Rate Benchmark Reform* is identical to *Interest Rate Benchmark Reform* as issued by the IASB, except for the scope paragraph limiting application to Tier 1 and Tier 2 for-profit entities.
19. The Australian Accounting Standards Board (AASB) issued equivalent amendments to Australian Accounting Standards in October.
20. We do not propose any RDR concessions in respect of the new disclosure paragraph added to NZ IFRS 7. The new paragraph requires disclosures about the extent to which an entity has applied the exceptions set out in the amending standard. AASB staff have indicated that they also plan to seek confirmation from the AASB that there should be no RDR concessions in respect of the new disclosure paragraph. Therefore, the Tier 1 and Tier 2 for-profit reporting requirements will continue to be aligned with those in Australia.
21. The issue of this amending standard is consistent with all three elements of the Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia and is consistent with the Accounting Standards Framework.

Effective date

22. The amending standard will be applicable for annual periods beginning on or after 1 January 2020, with early application permitted.

Other matters

23. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

24. The NZASB recommends that you sign the attached Certificate of Determination on behalf of the XRB Board.

Attachments

Interest Rate Benchmark Reform

Certificate of Determination

Kimberley Crook

Chair NZASB



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 18 October 2019

To: NZASB Members

From: Joanne Scott

Subject: *PBE Policy Approach – Interest Rate Benchmark Reform*

Recommendations¹

1. The Board is asked to:
 - (a) CONSIDER the application of the *Policy Approach to the Development of PBE Standards* (the Policy) to *Interest Rate Benchmark Reform*; and
 - (b) AGREE to propose amendments equivalent to *Interest Rate Benchmark Reform* to PBE Standards.
2. If the Board agrees to propose amendments to PBE Standards, we will also seek approval to issue an Invitation to Comment (ITC) and Exposure Draft (ED) (see agenda items 5.5 and 5.6).

Background

3. The IASB issued *Interest Rate Benchmark Reform* because of concerns that during the lead up to replacement of interest rate benchmarks, uncertainty about reform to interest rate benchmarks could lead to some hedging relationships being discontinued. See agenda items 5.1 and 5.3 for more detail.
4. Assuming that the NZASB approves the amending standard, the next step is to consider whether the amendments should be incorporated in PBE Standards, and if so, when. In this memo we have applied the relevant parts of the Policy to *Interest Rate Benchmark Reform*.
5. As explained in the signing memo, the New Zealand dollar (NZD) Bank Bill Benchmark Rate (BKBM) is based on transaction data, rather than interbank offers, and is largely unaffected by the international reforms.

PBE Policy Approach

6. The relevant triggers for considering whether to amend PBE Standards are set out in paragraph 4.2 of the Policy. In this case the IASB has issued amendments to existing IFRS Standards which the IPSASB has used as the basis for IPSAS. In addition, the amendments affect an IFRS Standard (IFRS 9) that the NZASB has used as the basis for a PBE Standard. The

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

standards amended by *Interest Rate Benchmark Reform* and the relevant PBE Standards are shown in Table 1 below.

Table 1 Amended standards

NZ IFRS	PBE Standards
<p>NZ IFRS 9 <i>Financial Instruments</i></p> <p>This standard has been effective since 1 January 2018. It established new hedging requirements but the hedging requirements in NZ IAS 39 are still available as an option.</p> <p>The IASB has added mandatory exceptions to certain hedging requirements.</p>	<p>PBE IPSAS 41 <i>Financial Instruments</i></p> <p>This standard was issued in March 2019 and is effective from 1 January 2022. It is equivalent to IFRS 9 (and IPSAS 41).</p> <p>Entities applying PBE IPSAS 41 can apply the new hedging requirements in the standard or the previous hedging requirements in PBE IPSAS 29.</p>
	<p>PBE IFRS 9 <i>Financial Instruments</i></p> <p>This standard was issued in January 2017. Although this standard does not include all of the requirements in IFRS 9, it does include the IFRS 9 hedging requirements.</p> <p>PBE IFRS 9 is superseded by PBE IPSAS 41, but a number of entities, including the Government of New Zealand, have early adopted PBE IFRS 9.</p> <p>Entities applying PBE IFRS 9 can apply the new hedging requirements in the standard or the previous hedging requirements in PBE IPSAS 29.</p>
<p>NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i></p> <p>NZ IFRS 9 superseded most of NZ IAS 39. However, the hedging requirements in NZ IAS 39 are still available as an option.</p> <p>The IASB has added mandatory exceptions to certain hedging requirements.</p>	<p>PBE IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i></p> <p>PBE IPSAS 41 (and PBE IFRS 9) superseded most of PBE IPSAS 29. However, the hedging requirements in PBE IPSAS 29 are still available as an option. PBEs could still apply the earlier unamended version of PBE IPSAS 29 for another 1-2 years.</p>
<p>NZ IFRS 7 <i>Financial Instruments: Disclosures</i></p> <p>The IASB has added new disclosure requirements for entities applying the mandatory exceptions.</p>	<p>PBE IPSAS 30 <i>Financial Instruments: Disclosures</i></p> <p>Although both PBE IFRS 9 and PBE IPSAS 41 amended PBE IPSAS 30, the new disclosure requirements in NZ IFRS 7 (about the extent to which entities have applied the mandatory exceptions) would be relevant for all versions of PBE IPSAS 30.</p>

7. Paragraphs 28–31 of the Policy set out the matters to be considered. Paragraphs 28–29 highlight the need to consider whether the IPSASB will address the change in an acceptable timeframe and the need to balance this against the costs and benefits of getting ahead of the IPSASB. Paragraph 30 establishes a rebuttable presumption that the NZASB will not get ahead of the IPSASB if the amendments are minor. Table 2 sets out our thoughts on these matters.

Table 2 Applying the Policy

<p>Will the IPSASB consider these issues in an acceptable timeframe?</p> <p>At this stage the IPSASB has not considered whether to make equivalent amendments to its financial instrument standards. It is possible that the IPSASB will propose equivalent amendments, but the timeframe is not known.</p> <p>If the IPSASB proposes amendments, and we wait for the IPSASB to finalise its amendments before issuing a domestic ED, it could be December 2020 (or later) before we could finalise amendments to PBE Standards.</p> <p>The IASB acted quickly on these amendments because it considered the matters to be urgent.</p> <p>Any PBEs that face uncertainty about the application of hedging requirements due to IBOR reform will be facing that uncertainty now. If the amendments are not issued soon then they may be too late to be of much use to PBEs. This is because the uncertainty being addressed by the IASB's amendments is expected to resolve over the 2020–2021 period, as benchmark interest rates are replaced and this is reflected in agreements.</p> <p>If for-profit entities that form part of mixed groups with a PBE parent apply the mandatory exceptions from 1 January 2020, and PBE Standards do not have equivalent mandatory exceptions, they might need to “unapply” these exceptions for consolidation purposes.</p>
<p>Are the amendments minor?</p> <p>Although the amendments are not extensive, they address a significant issue, or at least an issue with potentially serious ramifications (being the potential discontinuation of hedging relationships). We do not consider the amendments to be minor (and have therefore not considered whether to rebut the presumption in relation to minor amendments).</p>
<p>Costs and benefits of getting ahead of the IPSASB</p> <p><u>Costs</u></p> <p>If we were to get ahead of the IPSASB there is a risk, albeit a small risk, that we would establish slightly different requirements. There is also a risk that the IPSASB would decide not to issue the amendments which would result in a permanent difference between IPSAS and PBE Standards.</p> <p>Waiting for the IPSASB would not affect the resources required to develop and issue a domestic standard.</p> <p><u>Who would benefit?</u></p> <p>Any Tier 1 and 2 PBEs facing the type of uncertainty being addressed by the IASB's amendments. They would not be required to discontinue any hedging relationships due solely to such uncertainty. <i>At this stage we are not aware of any such entities.</i> See the outreach summary below.</p> <p>For-profit entities that apply the IASB's amendments and that are consolidated by a PBE parent (such as the Government). They would not be required to discontinue any hedging relationships due solely to such uncertainty when preparing PBE Standards compliant financial statements. <i>At this stage we are not aware of any such entities.</i> See the outreach summary below.</p>
<p>RDR</p> <p>We would propose to align the RDR concession between NZ IFRS and PBE Standards – ie there would be no RDR concession in respect of the new disclosure requirements.</p>

Outreach Summary

8. We have tried to establish which, if any entities, would benefit from the amendments. We contacted some large PBEs and for-profit entities that are consolidated by a PBE parent and looked at some financial statements.

9. None of the entities that responded (see Table 3) indicated that they would require the amendments. Reasons varied. Some did not manage interest rate risk. Of those that did, they transacted mainly in NZD and/or did not designate any derivative financial instruments as hedges in a hedging relationship. If we receive more information we will advise the Board at the meeting.
10. Our understanding of the way in which departments, crown entities and local authorities operate (see the second part of Table 3) suggests that they would be unlikely to require the amendments. However, as one entity commented, it is possible that some PBEs could be affected – for example, those that invest offshore or raise funds in currencies other than NZD.

Table 3

Part I – Entities that responded	
Treasury's Debt Management Function	PBE – no need for amendments
Auckland Council	PBE – no need for amendments
ACC	PBE – no need for amendments
New Zealand Superannuation Fund	For-profit – no need for amendments
Part II – Other information	
Departments	Departments have no ability, in their own right, to enter into derivative transactions. They may enter into derivatives to manage their foreign exchange risk (by way of delegations from the Minister of Finance and the Secretary to the Treasury, and subject to Treasury oversight).
Crown entities	Most Crown entities are prohibited from entering into derivative transactions. Some are permitted to do so by regulation, by ministerial approval or by way of an exemption in the Crown Entities Act.
Local authorities	Apart from Auckland Council we are not aware of any other local authorities that borrow in foreign currency.

11. Despite our lack of evidence that the amendments would be required in PBE Standards, we recommend that the NZASB agrees to propose amendments equivalent to *Interest Rate Benchmark Reform* to PBE Standards. This recommendation is influenced by our lack of knowledge about the potential impact of IBOR reform on PBEs and mixed groups. Short of contacting every entity that might be affected we can't be sure whether the amendments are required.
12. Issuing a domestic ED now gives the Board the option of finalising the amendments early next year. Even if the amendments are not required they would not create any issues – if they are not relevant, an entity would not apply them.

Question for the Board

- Q1. Does the Board agree to propose amendments equivalent to *Interest Rate Benchmark Reform* to PBE Standards?

ITC and ED

13. If the Board says “yes” to Question 1, then we will seek approval to issue the ITC and ED (see agenda items 5.5 and 5.6).
14. The normal comment period for exposure drafts is 90 days but it can be less in certain circumstances. EG A2 *Overview of the Accounting Standard Setting Process* paragraph 42 says “The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods will be used only for urgent or minor matters and will never be less than 30 days.”
15. The IASB considered this to be an urgent matter. The IASB comment period was only 45 days and the IASB finalised the amendments as quickly as it could. The European Financial Reporting Advisory Group (EFRAG) also indicated that it considered the amendments to be urgent. EFRAG changed its normal processes and consulted on its draft endorsement letter before the IASB finalised the amendments.
16. The draft ITC and ED propose:
 - (a) a comment period of just over 70 days, with comments closing 14 January 2020; and
 - (b) an effective date of 1 January 2020 (the same as the IASB’s amendments).
17. Although the ED proposes that the amendments be effective from 1 January 2020, and they would not be issued until after that date, this is permitted by the Financial Reporting Act 2013. Section 28 of the Act permits a standard to apply to an accounting period that has commenced before the date on which the standard takes effect, as long as the period has not ended before the standard takes effect.

Question for the Board

- Q2. Does the Board approve for issue the ITC and ED proposing amendments to PBE Standards?

Next steps

18. We would bring comments to the NZASB’s February 2020 meeting and, subject to consideration of any responses, would seek to finalise them at that meeting.



NZ ACCOUNTING
STANDARDS
BOARD

NZASB Exposure Draft 2019-5

PBE Interest Rate Benchmark Reform

(NZASB ED 2019-5)

Invitation to Comment

November 2019

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposed amendments.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to comment on only those questions, or issues that are relevant to you.

Comments should be submitted electronically using our 'Open for comment' page at:
<https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/>.

Please indicate whether the comments are made on your own behalf, on behalf of a group of people, or on behalf of an entity.

The closing date for submissions is **14 January 2020**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IASB	International Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PBE Standards	Public Benefit Entity Standards

Questions for respondents

		Paragraphs
1	Do you agree with the proposed amendments to:	
	(a) PBE IPSAS 41 <i>Financial Instruments</i> ;	
	(b) PBE IFRS 9 <i>Financial Instruments</i> ;	
	(c) PBE IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i> ; and	10–13
	(d) PBE IPSAS 30 <i>Financial Instruments: Disclosures</i> ?	
	If you disagree, please explain why.	
2	Do you agree with the proposed effective date of 1 January 2020? If you disagree, please explain why.	14
3	Do you have any other comments on the ED?	–

1. Introduction

1.1 Background

1. The NZASB has recently approved amendments, referred to as *Interest Rate Benchmark Reform*, to the financial instruments standards within NZ IFRS. It is now proposing equivalent amendments to the financial instrument standards within PBE Standards.
2. World-wide there are a number of changes to interbank offer rates (referred to as IBOR reform) in order to meet new regulatory requirements. Some interest rate benchmarks such as the London Inter-bank Offered Rate (LIBOR) are being phased out, alternative risk free rates are being established, and other benchmarks are being strengthened. Interest rate benchmarks are referred to in loan agreements and derivative contracts and many entities have had to update agreements to refer to new replacement rates.
3. The New Zealand dollar (NZD) Bank Bill Benchmark Rate (BKBM) is based on transaction data, rather than interbank offers, and is largely unaffected by the international reforms.
4. The amendments to NZ IFRS acknowledge that, in the period leading up to the replacement of certain benchmarks, such as LIBOR, some for-profit entities might have hedging relationships that are directly affected by uncertainties due to IBOR reform. The objective of the amendments to NZ IFRS is to avoid the discontinuation of hedge accounting due to such uncertainties.
5. It is not expected that many PBEs that apply hedge accounting will have hedging relationships that are directly affected by IBOR reform, but for those that do, the uncertainties related to the replacement of interbank offer rates and, in particular, the inability to meet specific forward-looking hedge accounting requirements could result in the discontinuation of hedging relationships.
6. Generally the NZASB waits for the International Public Sector Accounting Standards Board (IPSASB) to consider changes to IFRS® Standards before proposing amendments to PBE Standards. In this case, the NZASB decided not to wait for the IPSASB on the grounds that the amendments could be urgently required by affected entities.

1.2 Purpose of this Invitation to Comment

7. The purpose of this Invitation to Comment and associated Exposure Draft (ED) is to seek comments on the proposals to amend a number of PBE Standards dealing with financial instruments to avoid the situation where hedge accounting would be discontinued solely due to uncertainty associated with IBOR reform. The standards being amended are:
 - (a) PBE IPSAS 41 *Financial Instruments*;
 - (b) PBE IFRS 9 *Financial Instruments*;
 - (c) PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*; and
 - (d) PBE IPSAS 30 *Financial Instruments: Disclosures*.

1.3 Timeline and next steps

8. Submissions on NZASB ED 2019-5 are due by 14 January 2020. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

9. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise the amendments.

2. Overview of Invitation to Comment and ED

2.1 Amendments to PBE Standards

10. As noted in the Introduction, most PBEs applying hedge accounting will not have hedging relationships that are directly affected by IBOR reform and the proposed amendments will not be relevant for them.
11. The proposed amendments are based on the amendments initially developed and issued by the International Accounting Standards Board (IASB). The IASB's project summary contains a good explanation of the amendments.² Because the PBE Standards dealing with financial instruments are so closely aligned with NZ IFRS, the IASB's project summary is also useful for any PBEs that think they might be affected by the proposals. The main difference is that PBEs could be applying the hedge accounting requirements in three standards, rather than two.
12. The proposed amendments provide relief from the highly probable and prospective assessments required by PBE IPSAS 41, PBE IFRS 9 and PBE IPSAS 29 insofar as these tests relate to hedging relationships that are affected by the uncertainties of the IBOR reform. They also provide relief from the retrospective assessment under PBE IPSAS 29. The exceptions described in the amendments apply only to those hedging relationships directly affected by uncertainties of the IBOR reform including cross-currency interest rate swaps (for the interest component affected). The exceptions are mandatory for the period that the uncertainty exists. Entities that apply the exceptions are required to disclose information about this.
13. No disclosure concessions are proposed for Tier 2 PBEs.

Question for respondents

1. Do you agree with the proposed amendments to:
 - (a) PBE IPSAS 41 *Financial Instruments*;
 - (b) PBE IFRS 9 *Financial Instruments*;
 - (c) PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*; and
 - (d) PBE IPSAS 30 *Financial Instruments: Disclosures*?If you disagree, please explain why.

² The IASB's project summary is available at <https://www.ifrs.org/-/media/project/ibor-reform/interest-rate-benchmark-reform-project-summary.pdf?la=en>

2.2 Effective date and other comments

14. The proposed effective date for the amendments is 1 January 2020, with early adoption permitted.

Questions for respondents

2. Do you agree with the proposed effective date of 1 January 2020? If you disagree, please explain why.
3. Do you have any other comments on the ED?

PBE INTEREST RATE BENCHMARK REFORM



NZASB EXPOSURE DRAFT 2019-5

PBE Interest Rate Benchmark Reform**Issued [date]**

This [draft]¹ Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part G.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard is based on amendments issued by the International Accounting Standards Board to support the provision of useful financial information by entities during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs).

¹ References to “this Standard” throughout this Exposure Draft should be read as referring to “this draft Standard”.

PBE INTEREST RATE BENCHMARK REFORM

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Part A – Introduction

This Standard sets out amendments to PBE Standards to support the provision of useful financial information by entities applying hedge accounting during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as IBORs.

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Part C – Amendments to PBE IPSAS 41 *Financial Instruments*

Paragraphs 155.1–155.12 and 156.4 are added. A new heading is added before paragraph 155.1. New subheadings are added before paragraphs 155.4, 155.5, 155.6, 155.7 and 155.9. These paragraphs have not been underlined for ease of reading.

Paragraphs 157.7, 157.8, 179 and 184 are amended. New text in these paragraphs is underlined.

Hedge Accounting

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Temporary Exceptions from Applying Specific Hedge Accounting Requirements

155.1 An entity shall apply paragraphs 155.4–155.12 and paragraphs 156.4 and 184(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
- (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

155.2 For the purpose of applying paragraphs 155.4–155.12, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.²

155.3 Paragraphs 155.4–155.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly Probable Requirement for Cash Flow Hedges

155.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 124, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the Amount Accumulated in the Cash Flow Hedge Reserve

155.5 For the purpose of applying the requirement in paragraph 141 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessing the Economic Relationship Between the Hedged Item and the Hedging Instrument

155.6 For the purpose of applying the requirements in paragraphs 129(c)(i) and AG278–AG280, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a Component of an Item as a Hedged Item

155.7 Unless paragraph 155.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 128(a) and AG257—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.

² The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

PBE INTEREST RATE BENCHMARK REFORM

155.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 128(a) and AG257—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of Application

155.9 An entity shall prospectively cease applying paragraph 155.4 to a hedged item at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) when the hedging relationship that the hedged item is part of is discontinued.

155.10 An entity shall prospectively cease applying paragraph 155.5 at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
- (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.

155.11 An entity shall prospectively cease applying paragraph 155.6:

- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 155.11(a) or the date specified in paragraph 155.11(b), the entity shall prospectively cease applying paragraph 155.6 to that hedging relationship at the date of discontinuation.

155.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 155.4–155.6 to an individual item or financial instrument in accordance with paragraphs 155.9, 155.10, or 155.11, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Effective Date and Transition

Effective Date

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156.4 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, PBE IPSAS 29 and PBE IPSAS 30, issued in [Date], added paragraphs 155.1–155.12 and amended paragraphs 157.7, 157.8, 179 and 184. If an entity has applied PBE IPSAS 41 for annual periods beginning on or before 1 January 2020 it shall apply these amendments for annual periods beginning on or after [proposed: 1 January 2020]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. If an entity has not applied PBE IPSAS 41 for annual periods beginning on or before 1 January 2020, it shall apply these amendments when it first applies PBE IPSAS 41.

PBE INTEREST RATE BENCHMARK REFORM

Transition

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Entities Transitioning from PBE IFRS 9

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Hedge Accounting

- 157.7 When an entity that has previously applied the hedge accounting requirements of PBE IFRS 9 first applies this Standard it shall apply the requirements in paragraphs 113–155.12 of this Standard. On first time application of this Standard it shall apply hedge accounting to the existing hedging relationships to which it applied hedge accounting under PBE IFRS 9.
- 157.8 When an entity that has previously applied PBE IFRS 9 continued to apply the hedge accounting requirements of PBE IPSAS 29 it may continue to apply those requirements. Alternatively, an entity may elect, on adoption of this Standard, to apply the requirements in paragraphs 113–155.12 of this Standard in accordance with paragraphs 179–184 of this Standard.

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Entities Transitioning from PBE IPSAS 29

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Transition for Hedge Accounting

179. When an entity first applies this Standard, it may choose as its accounting policy to continue to apply the hedge accounting requirements of PBE IPSAS 29 instead of the requirements in paragraphs 113–155.12 of this Standard. An entity shall apply that policy to all of its hedging relationships. An entity that chooses that policy shall also apply Appendix C of PBE IPSAS 29.

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184. As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

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- (d) shall apply the requirements in paragraphs 155.1–155.12 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

In the Basis for Conclusions, paragraph BC14 is added.

Interest Rate Benchmark Reform

BC14. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019.

Part D – Amendments to PBE IFRS 9 *Financial Instruments*

Paragraphs 6.8.1–6.8.12 and 7.1.8 are added. A new heading is added before paragraph 6.8.1. New subheadings are added before paragraphs 6.8.4, 6.8.5, 6.8.6, 6.8.7 and 6.8.9. These paragraphs have not been underlined for ease of reading.

Paragraph 7.2.26 is amended. New text in this paragraph is underlined.

Chapter 6 Hedge accounting

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6.8 Temporary exceptions from applying specific hedge accounting requirements

- 6.8.1 An entity shall apply paragraphs 6.8.4–6.8.12 and paragraphs 7.1.8 and 7.2.26(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:
- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
 - (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.
- 6.8.2 For the purpose of applying paragraphs 6.8.4–6.8.12, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.³
- 6.8.3 Paragraphs 6.8.4–6.8.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges

- 6.8.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 6.3.3, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the amount accumulated in the cash flow hedge reserve

- 6.8.5 For the purpose of applying the requirement in paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessing the economic relationship between the hedged item and the hedging instrument

- 6.8.6 For the purpose of applying the requirements in paragraphs 6.4.1(c)(i) and B6.4.4–B6.4.6, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually

³ The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

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or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a component of an item as a hedged item

- 6.8.7 Unless paragraph 6.8.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.
- 6.8.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of application

- 6.8.9 An entity shall prospectively cease applying paragraph 6.8.4 to a hedged item at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) when the hedging relationship that the hedged item is part of is discontinued.
- 6.8.10 An entity shall prospectively cease applying paragraph 6.8.5 at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
 - (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.
- 6.8.11 An entity shall prospectively cease applying paragraph 6.8.6:
- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.
- If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 6.8.11(a) or the date specified in paragraph 6.8.11(b), the entity shall prospectively cease applying paragraph 6.8.6 to that hedging relationship at the date of discontinuation.
- 6.8.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 6.8.4–6.8.6 to an individual item or financial instrument in accordance with paragraphs 6.8.9, 6.8.10, or 6.8.11, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Chapter 7 Effective date and transition

7.1 Effective date

- ...
- 7.1.8 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30, issued in [Date], added Section 6.8 and amended paragraph 7.2.26. An entity shall apply these amendments for annual periods beginning on or after [proposed: 1 January 2020]. Earlier

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application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 Transition

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Transition for hedge accounting (Chapter 6)

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7.2.26 As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

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- (d) shall apply the requirements in Section 6.8 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

In the Basis for Conclusions, paragraph BC21 is added.
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Interest Rate Benchmark Reform

BC21. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019.

Part E – Amendments to PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*

Paragraphs 113A–113N and 126.9 are added. A new heading is added before paragraph 113A. New subheadings are added before paragraphs 113D, 113E, 113F, 113H and 113J. These paragraphs have not been underlined for ease of reading.

The references to PBE IFRS 9 are relevant only for those entities that have early adopted PBE IFRS 9. References to PBE IFRS 9 will be omitted when PBE IPSAS 41 is compiled (which will be closer to the effective date of PBE IPSAS 41 – 1 January 2022).

Hedging

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Temporary Exceptions from Applying Specific Hedge Accounting Requirements

113A An entity shall apply paragraphs 113D–113N and 113G to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
- (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

113B For the purpose of applying paragraphs 113D–113N, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.⁴

113C Paragraphs 113D–113N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly Probable Requirement for Cash Flow Hedges

113D For the purpose of applying the requirement in paragraph 98(c) that a forecast transaction must be highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the Cumulative Gain or Loss Recognised in Other Comprehensive Revenue and Expense

113E For the purpose of applying the requirement in paragraph 112(c) in order to determine whether the forecast transaction is no longer expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Effectiveness Assessment

113F For the purpose of applying the requirements in paragraphs 98(b) and AG145(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

⁴ The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

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- 113G For the purpose of applying the requirement in paragraph 98(e), an entity is not required to discontinue a hedging relationship because the actual results of the hedge do not meet the requirements in paragraph AG145(b). For the avoidance of doubt, an entity shall apply the other conditions in paragraph 98, including the prospective assessment in paragraph 98(b), to assess whether the hedging relationship must be discontinued.

Designating Financial Items as Hedged Items

- 113H Unless paragraph 113I applies, for a hedge of a non-contractually specified benchmark portion of interest rate risk, an entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion shall be separately identifiable—only at the inception of the hedging relationship.
- 113I When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of Application

- 113J An entity shall prospectively cease applying paragraph 113D to a hedged item at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) when the hedging relationship that the hedged item is part of is discontinued.
- 113K An entity shall prospectively cease applying paragraph 113E at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
 - (b) when the entire cumulative gain or loss recognised in other comprehensive revenue and expense with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.
- 113L An entity shall prospectively cease applying paragraph 113F:
- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 113L(a) or the date specified in paragraph 113L(b), the entity shall prospectively cease applying paragraph 113F to that hedging relationship at the date of discontinuation.

- 113M An entity shall prospectively cease applying paragraph 113G to a hedging relationship at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or of the hedging instrument; and
 - (b) when the hedging relationship to which the exception is applied is discontinued.
- 113N When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 113D–113G to an individual item or financial instrument in accordance with paragraphs 113J, 113K, 113L, or 113M, as relevant, when

PBE INTEREST RATE BENCHMARK REFORM

the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Effective Date and Transition

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- 126.9 *PBE Interest Rate Benchmark Reform* which amended PBE IPSAS 41, [PBE IFRS 9,] PBE IPSAS 29 and PBE IPSAS 30, issued in [Date], added paragraphs 113A–113N. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [proposed: 1 January 2020]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive revenue and expense that existed at the beginning of the reporting period in which an entity first applies these amendments.

In the Basis for Conclusions, paragraph BC4 is added.

Interest Rate Benchmark Reform

- BC4. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019.

Part F – Amendments to PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 28H and 53.9–53.10 are added and a subheading is added before paragraph 28H. These paragraphs have not been underlined for ease of reading.

The references to PBE IFRS 9 are relevant only for those entities that have early adopted PBE IFRS 9. References to PBE IFRS 9 will be omitted when PBE IPSAS 41 is compiled (which will be closer to the effective date of PBE IPSAS 41 – 1 January 2022).

Hedge Accounting

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Uncertainty Arising from Interest Rate Benchmark Reform

28H For hedging relationships to which an entity applies the exceptions set out in paragraphs 155.4–155.12 of PBE IPSAS 41, [paragraphs 6.8.4–6.8.12 of PBE IFRS 9], or paragraphs 113D–113N of PBE IPSAS 29, an entity shall disclose:

- (a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;
- (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
- (c) how the entity is managing the process to transition to alternative benchmark rates;
- (d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and
- (e) the nominal amount of the hedging instruments in those hedging relationships.

Effective Date and Transition

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53.9 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in [Date], added paragraphs 28H and 53.10. An entity shall apply these amendments when it applies the amendments to PBE IPSAS 41, [PBE IFRS 9] or PBE IPSAS 29.

53.10 In the reporting period in which an entity first applies *PBE Interest Rate Benchmark Reform*, issued in [Date], an entity is not required to present the quantitative information required by paragraph 33(f) of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the Basis for Conclusions, paragraph BC3 is added.

Interest Rate Benchmark Reform

BC3. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. They also required information about the extent to which an entity's hedging relationships were within the scope of the exceptions. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions and should be required to disclose the extent to which they applied the exceptions. The NZASB issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019.

Part G – Effective Date

This Standard shall be applied for annual financial statements covering periods beginning on or after 1 January 2020. Earlier application is permitted.

In some cases where the amendments relate to standards that are not yet effective, the amendments are effective from 1 January 2020 or when an entity applies those standards, whichever comes first.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 18 October 2019
To: NZASB Members
From: David Bassett and Lisa Kelsey
Subject: **Primary Financial Statements**

Recommendations¹

1. We recommend that the Board:
 - (a) AGREES to comment on the forthcoming IASB ED *General Presentation and Disclosures in Financial Statements* (the forthcoming ED);
 - (b) AGREES the proposed outreach for the project;
 - (c) AGREES the proposed approach to seeking feedback from the Board on the proposals; and
 - (d) AGREES the proposed timeline for the project (see Appendix A).

Background

2. The forthcoming ED proposes improvements to the presentation and disclosure of information in an entity's financial statements with a focus on the statement(s) of financial performance. The IASB developed these proposals in its *Primary Financial Statements* project, which is part of the IASB's work on *Better Communication in Financial Reporting*.
3. At its meeting in September 2019 the Board invited senior analysts from institutional investment firms and share broking firms to attend an education session on the IASB's *Primary Financial Statements* project and provide feedback on the forthcoming proposals. The session was presented by Aida Vatrenejak, IASB Technical Staff and Project Lead – via videoconference from London.
4. Staff presented a similar session at the September 2019 XRAP meeting and sought feedback on the forthcoming proposals from XRAP members.

Structure of this memo

5. The remaining sections in this memo are:
 - (a) Agreement to comment;

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

- (b) Proposed outreach;
- (c) Proposed approach for Board discussions; and
- (d) Proposed timeline.

Agreement to comment

6. The IASB is not expected to issue the forthcoming ED until December 2019. Because the Board has already received an education session on the proposals, we are seeking Board approval to comment on the forthcoming ED at this meeting. This will allow staff to start planning outreach activities as appropriate.

Question for Board

- Q1. Does the Board agree to comment on the forthcoming ED?

Proposed outreach

7. We are proposing targeted outreach with the following groups.

Group	Topics	When
NZAuASB	Audit of MPMs	February 2020
FMA	Primarily MPMs, but will seek feedback on all proposals	February 2020
TRG	All – split over three meetings	November/December 2019, March and May 2020
NZSA ¹ (users)	All	April 2020 (TBC)
INFINZ ² (users)	Subtotals and MPMs	April 2020 (TBC)
Corporate Reporting Users Forum (users)	Subtotals and MPMs	H1 2020 (TBC)
Conferenz Annual IFRS Masterclass (preparers)	All	April 2020
1. NZSA – New Zealand Shareholders' Association Inc 2. INFINZ – Institute of Finance Professionals NZ Inc		

8. We are also planning the following outreach activities.
- (a) Using an online survey such as survey monkey to obtain feedback.
 - (b) Hosting a webinar, including polls to obtain feedback.
 - (c) Creating awareness in New Zealand of the forthcoming proposals and the various ways for constituents to provide feedback through the *NZASB Update* and LinkedIn posts.

9. We considered whether we should undertake the following additional types of outreach but concluded that the benefits would unlikely exceed the costs.
- (a) Roundtables (similar to the events held on the IASB's *Principles of Disclosure* Discussion Paper).
 - (b) An event with the Institute of Directors.
 - (c) Presenting at special interest groups (or equivalent groups) of the Professional Accounting bodies.

Question for Board

Q2. Does the Board agree with the proposed outreach for the project?

Proposed approach for Board discussions

10. Because the forthcoming ED is expected to cover a number of new proposals, we are recommending that the proposals are grouped into topics and discussed at the February and March 2020 meetings. Table A is an indicative grouping of topics.
11. We have also allowed two Board meetings for feedback on a complete draft comment letter.

Table A - Indicative grouping of topics		
Topic		NZASB Meeting
1. Objective and roles of the primary financial statements and the notes		14 February 2020
2. Structure of the statement(s) of Financial Performance		
<ul style="list-style-type: none"> • categories in statement of profit or loss – operating, investing, financing • new subtotals: <ul style="list-style-type: none"> ○ operating profit or loss; ○ operating profit or loss and the share of profit of profit and loss of integral associates and joint ventures; and ○ profit and loss before financing and income tax. • classification of income and expenses from integral and non-integral associates and joint ventures • classification of income/expenses for financial entities 		
3. Statement of Financial Position		
<ul style="list-style-type: none"> • line items to be presented 		
4. Non-mandatory illustrative examples		
5. Management Performance Measures (MPMs)		25 March 2020
<ul style="list-style-type: none"> • definitions and restrictions • location • disclosures 		
6. Aggregation and disaggregation		
<ul style="list-style-type: none"> • principles, definitions and guidance on aggregation and disaggregation 		

Table A - Indicative grouping of topics	
Topic	NZASB Meeting
<ul style="list-style-type: none"> • analysis of operating expenses by nature or function • disclosure of unusual items • minimum line items 	
7. Non-mandatory illustrative examples	
8. Amendments to other IFRS Standards	
<ul style="list-style-type: none"> • IAS 7 <i>Statement of Cash Flows</i> • IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> • IAS 33 <i>Earnings per Share</i> • IAS 34 <i>Interim Financial Reporting</i> • IFRS 12 <i>Disclosure of Interests in Other Entities</i> 	
First draft of comment letter for Board's feedback	7 May 2020
Comment letter for approval by Board	17 June 2020

Question for Board

Q3. Does the Board agree with the proposed approach for Board discussions?

Proposed timeline

12. IASB staff have indicated that the forthcoming ED will be issued on 19 December 2019 with a six-month comment period.
13. Appendix A contains a proposed timeline for the project.

Question for Board

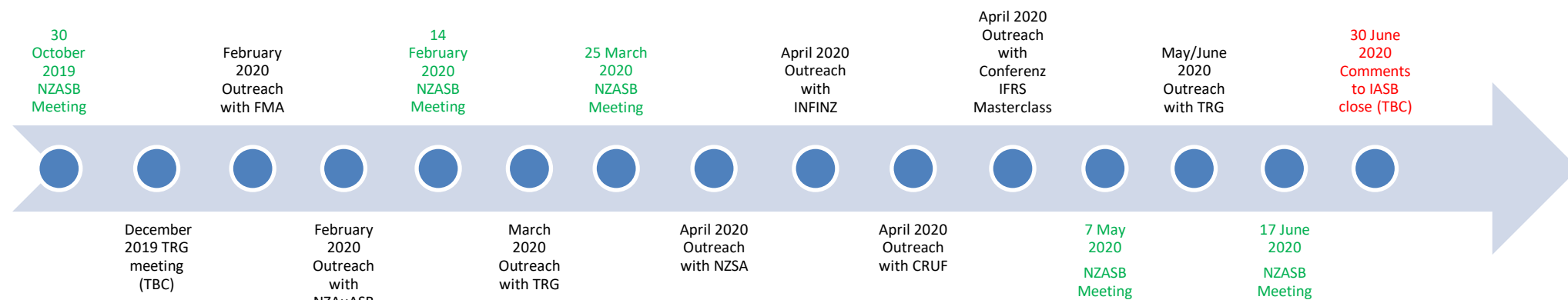
Q4. Does the Board agree with the proposed timeline for the project?

Next steps

14. We will bring the first grouping of topics to the Board for feedback at the February 2020 meeting.

Appendix A

Project timeline



Project timeline – Details		
Date	Group	Comments
30 October 2019	NZASB	Agree to comment and agree project timeline and proposed outreach
December 2019 (TBC)	TRG	Seek feedback on specific topics - objective and roles of the primary financial statements and the notes, structure of the statement(s) of Financial Performance, Statement of Financial Position (based on draft documentation)
February 2020	FMA	Seek feedback on all proposal, but primarily on MPMs
12 February 2020	NZAuASB	Seek feedback on the audit of MPMs
14 February 2020 (morning session)	NZASB	Feedback on specific topics - objective and roles of the primary financial statements and the notes, structure of the statement(s) of Financial Performance, Statement of Financial Position
March 2020	TRG	Feedback on specific topics – MPMs, aggregation and disaggregation, non-mandatory illustrative examples, amendments to other IFRS Standards

Project timeline – Details		
Date	Group	Comments
25 March 2020	NZASB	Feedback on specific topics – MPMs, aggregation and disaggregation, non-mandatory illustrative examples, amendments to other IFRS Standards
April 2020	NZSA (users)	Seek feedback on all proposals
April 2020	INFINZ (users)	Seek feedback on subtotals and MPMs
April 2020	Corporate Reporting Users Forum (users)	Seek feedback on subtotals and MPMs
April 2020	Conferenz Annual IFRS Masterclass (preparers)	Seek feedback on all proposals
7 May 2020	NZASB	Feedback on draft comment letter
May/June 2020	TRG	Seek feedback on draft comment letter taken to NZASB 7 May 2020 meeting
17 June 2020	NZASB	Approve final comment letter
30 June 2020 (TBC)	IASB	IASB have indicated a 6month comment period ending June 2020, this date will depend on final date of issue of the ED



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 18 October 2019
To: NZASB Members
From: Joanne Scott
Subject: Editorial Corrections to PBE Standards

Recommendations¹

1. The Board is asked to APPROVE editorial corrections to PBE Standards.

Background

2. Whenever possible we include editorial corrections in exposure drafts. This improves their visibility and means that we do not need a separate process for editorial corrections. We have identified a few editorial corrections that have not yet been included in PBE Standards and which we would like to include in the next compilation of PBE Standards (early next year).
3. The corrections were identified by the IPSASB when it published the 2018 Handbook in October 2018. We were initially planning to include the corrections in the next omnibus amendments project, but this will not be until next year.

Editorial corrections

4. We are seeking approval to include the following editorial corrections in the next compilation of PBE Standards. We would include the corrections on the recent approvals page of the website.

Standard	Correction
PBE IPSAS 26 Paragraph 20	Impairment 20. <u>PBE IPSAS 21</u> This Standard defines an “impairment” as a loss in the future economic benefits or service potential of an asset ...
PBE IPSAS 26 Paragraph AG11(c)	AG11. Many estimates developed in current practice: (a) ... (b) ... (c) The estimated amount will be CU50 (10 percent probability), CU250 (30 percent probability), or CU100 (60 percent probability). Based on that limited information, the estimated expected cash flow is CU140 [(50 × 0.10)+(250 × 0.30)+(100 × 0.60)]. In each case, the estimated

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Standard	Correction								
	<p>expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely, or maximum amount taken alone.</p> <p><u>In each case, the estimated expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely, or maximum amount taken alone.</u></p>								
PBE IPSAS 26 Paragraph AG18(b)	<p>AG18. However, these rates must be adjusted:</p> <p>(a) ...</p> <p>(b) To exclude risks that are not relevant to the asset’s estimated cash flows or for which the estimated cash flows have been adjusted. Consideration should be given to risks such as country risk, currency risk, and price risk.</p> <p><u>Consideration should be given to risks such as country risk, currency risk, and price risk.</u></p>								
PBE IPSAS 29 ² Paragraph AG 139	<p>AG139. To be eligible for hedge accounting, ...:</p> <p>(a) ...</p> <p>(b) ...</p> <p><u>(c) A contractually specified inflation portion of the cash flows of a recognised inflation-linked bond (assuming there is no requirement to account for an embedded derivative separately) is separately identifiable and reliably measurable as long as other cash flows of the instrument are not affected by the inflation portion.</u></p>								
PBE IPSAS 29 Paragraph IE 4	<p>IE4. Entity A decides, for risk management purposes, to hedge the net position of CU20 million and accordingly enters into an interest rate swap* on January 1, 20X1, 4-to pay a fixed rate and</p>								
PBE IPSAS 29 Paragraph IE 28	<p>IE28. ...</p> <table><tr><td>Dr</td><td>Derivative liability</td><td>CU9,518</td><td></td></tr><tr><td></td><td>Cr</td><td>Surplus or deficit (lossgain)</td><td>CU9,518</td></tr></table> <p><i>To recognise the expiry of the portion of the swap designated as the hedging instrument (CU8 million).</i></p>	Dr	Derivative liability	CU9,518			Cr	Surplus or deficit (loss gain)	CU9,518
Dr	Derivative liability	CU9,518							
	Cr	Surplus or deficit (loss gain)	CU9,518						
PBE IPSAS 29 Paragraph IE 30	<p>IE30. Entity A makes the following accounting entry to amortise the line item balance for this time period:</p> <table><tr><td>Dr</td><td>Surplus or deficit (loss)</td><td>CU11,377</td><td></td></tr><tr><td></td><td>Cr</td><td><u>Separate line item in the statement of financial position</u></td><td>CU11,377^(a)</td></tr></table> <p><i>To recognise the amortisation charge for the period.</i></p> <p>(a) CU22,755 ÷ 2</p>	Dr	Surplus or deficit (loss)	CU11,377			Cr	<u>Separate line item in the statement of financial position</u>	CU11,377 ^(a)
Dr	Surplus or deficit (loss)	CU11,377							
	Cr	<u>Separate line item in the statement of financial position</u>	CU11,377 ^(a)						

² None of the four paragraphs in PBE IPSAS 29 in this table were amended by PBE IFRS 9 or PBE IPSAS 41. The same editorial corrections are relevant regardless of whether an entity has early adopted PBE IFRS 9 or PBE IPSAS 41.



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 111

Approval to Issue 2019 Omnibus Amendments to NZ IFRS

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *2019 Omnibus Amendments to NZ IFRS*; and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *2019 Omnibus Amendments to NZ IFRS* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 12th day of September 2019

A handwritten signature in black ink, appearing to read 'Michele Embling', written over a dotted line.

Michele Embling
Chair
External Reporting Board

August 2019

IFRS® Standards
Exposure Draft ED/2019/6

Disclosure of Accounting Policies

Proposed amendments to IAS 1
and IFRS Practice Statement 2

Comments to be received by 29 November 2019

IASB®



Exposure Draft

Disclosure of Accounting Policies

Proposed amendments to IAS 1 and IFRS Practice Statement 2

Comments to be received by 29 November 2019

Exposure Draft ED/2019/6 *Disclosure of Accounting Policies* is published by the International Accounting Standards Board (Board) for comment only. The proposals may be modified in the light of comments received before being issued in final form. Comments need to be received by 29 November 2019 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment documents' page at: <https://www.ifrs.org/projects/open-for-comment/>.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

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DISCLOSURE OF ACCOUNTING POLICIES—PROPOSED AMENDMENTS TO IAS 1 AND IFRS PRACTICE
STATEMENT 2

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Introduction

In this Exposure Draft, the International Accounting Standards Board (Board) proposes amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*. The proposed amendments are intended to help entities provide accounting policy disclosures that are more useful to primary users of financial statements.

IAS 1 requires entities to disclose their 'significant' accounting policies. The Board proposes to replace that requirement with a requirement to disclose 'material' accounting policies. In addition, the Board is proposing amendments to IAS 1 and IFRS Practice Statement 2 to help entities apply the concept of materiality in making decisions about accounting policy disclosures. The proposed amendments are intended to help entities:

- identify and disclose all accounting policies that provide material information to primary users of financial statements; and
- identify immaterial accounting policies and eliminate them from their financial statements.

The proposed amendments build on *Definition of Material*, issued in October 2018, which made amendments to IAS 1 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) respond to the questions as stated;
- (b) indicate the specific paragraph or paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative(s) the Board could consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

Question 1

The Board proposes to amend paragraph 117 of IAS 1 to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies.

Do you agree with this proposed amendment? If not, what changes do you suggest and why?

Question 2

The proposed new paragraph 117A of IAS 1 states that not all accounting policies relating to material transactions, other events or conditions are themselves material to an entity's financial statements.

Do you agree with this proposed statement? If not, what changes do you suggest and why?

Question 3

The proposed new paragraph 117B of IAS 1 lists examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements.

Do the proposed examples accurately and helpfully describe such circumstances? If not, what changes do you suggest and why?

Question 4

The Board proposes to add to IFRS Practice Statement 2 two examples that illustrate how the concept of materiality can be applied in making decisions about accounting policy disclosures.

Are these examples useful and do they demonstrate effectively how the concept of materiality can be applied in making decisions about accounting policy disclosures? If not, what changes do you suggest and why?

EXPOSURE DRAFT—AUGUST 2019

Question 5
Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?
Question 6
Do you have any other comments about the proposals in this Exposure Draft?

Deadline

The Board will consider all comments received in writing by 29 November 2019.

How to comment

We prefer to receive comments electronically. However, you may submit comments using any of the following methods:

Electronically	Visit the 'Open for comment' page at: https://www.ifrs.org/projects/open-for-comment
By email	Send email comments to: commentletters@ifrs.org
By post	IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this and on how we use your personal data.

[Draft] Amendments to IAS 1 *Presentation of Financial Statements*

Paragraphs 7, 10, 114, 117 and 122 are amended. Paragraphs 117A–117D and 139U are added. Paragraphs 118, 119 and 121 are deleted. New text is underlined and deleted text is struck through.

Definitions

- 7 The following terms are used in this Standard with the meanings specified:
- Accounting policies is defined in paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and is used in this Standard with the same meaning.

...

Complete set of financial statements

- 10 A complete set of financial statements comprises:
- ...
- (e) notes, comprising ~~significant~~ material accounting policies and other explanatory information;

...

Notes

Structure

- ...
- 114 Examples of systematic ordering or grouping of the notes include:
- ...
- (c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:
- ...
- (ii) ~~significant~~ material accounting policies applied (see paragraph 117);

...

Disclosure of accounting policies

- 117 An entity shall disclose its ~~significant~~ material accounting policies ~~comprising~~. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions

that primary users of general purpose financial statements make on the basis of those financial statements.

- (a) ~~the measurement basis (or bases) used in preparing the financial statements; and~~
- (b) ~~the other accounting policies used that are relevant to an understanding of the financial statements.~~

117A Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

117B An accounting policy is material if information about that accounting policy is needed to understand other material information in the financial statements. For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:

- (a) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;
- (b) was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;
- (c) was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies;
- (d) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or
- (e) applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

117C Information about accounting policies that focuses on how an entity has applied the requirements in IFRS Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised descriptions or information that only duplicates the recognition or measurement requirements of IFRS Standards.

117D If an entity concludes that an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS Standards if that information is material.

~~118 [Deleted]It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects~~

users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

- 119 ~~[Deleted]~~In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

...

- 121 ~~[Deleted]~~An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.

- 122 An entity shall disclose, along with its ~~significant~~ material accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

...

Transition and effective date

...

- 139U [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117D and deleted paragraphs 118, 119 and 121. An entity shall apply the amendments to IAS 1 in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. The amendments shall be applied prospectively.

[Draft] Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

Paragraphs 88A–88D and their heading, and Examples S and T are added. Paragraphs 117, 117A and 117D of IAS 1 are added to the Appendix. New text is underlined.

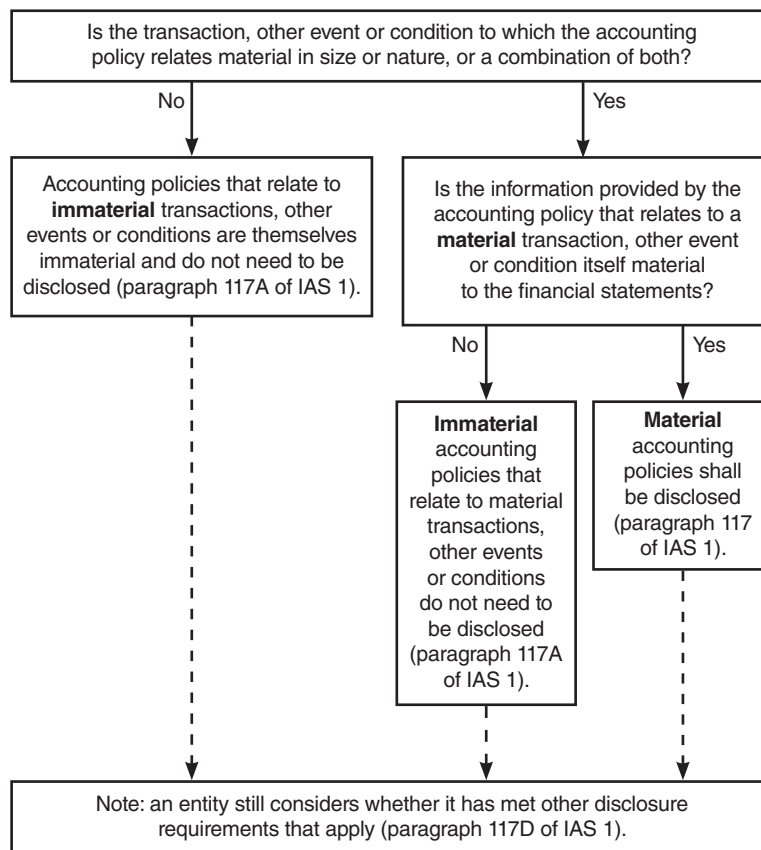
Specific topics

...

Information about accounting policies

- 88A Paragraph 117 of IAS 1 requires an entity to disclose its material accounting policies.
- 88B Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Accounting policies relating to material transactions, other events or conditions are disclosed if information provided by the accounting policies is material to the financial statements.
- 88C An entity assesses whether information about its accounting policies is material to its financial statements by considering whether that information, together with other information in the financial statements, could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. This assessment is made in the same way as for other information—by considering qualitative and quantitative factors as described in paragraphs 44–55. The diagram below illustrates how an entity assesses whether an accounting policy is material and therefore should be disclosed.

Diagram—determining whether an accounting policy is material



88D

Paragraph 117B of IAS 1 includes examples of circumstances in which an entity is likely to consider an accounting policy to be material:

...For example, an entity is likely to consider an accounting policy to be material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:

- (a) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;
- (b) was chosen from one or more alternatives in an IFRS Standard, for example, the option to measure investment property at either historical cost or fair value;
- (c) was developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies;
- (d) relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy and discloses those judgements or assumptions in accordance with paragraphs 122 and 125 of IAS 1; or

- (e) applies the requirements of an IFRS Standard in a way that reflects the entity's specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

<p><u>Example S—making materiality judgements and focusing on entity-specific information while avoiding standardised ('boilerplate') accounting policy disclosures</u></p> <p><u>Background</u></p> <p><u>An entity operates within the telecommunications industry. It has entered into a number of contracts with retail customers to deliver both a mobile phone handset and data services. A typical contract is one in which the entity will provide a customer with a handset and data services over a three-year period. The entity applies IFRS 15 <i>Revenue from Contracts with Customers</i> and recognises revenue when, or as, it satisfies its performance obligations in line with the terms of the contract.</u></p> <p><u>The entity has identified the following performance obligations and related considerations:</u></p> <p>(a) <u>handset—the customer makes monthly payments for the handset over three years; and</u></p> <p>(b) <u>data—the customer pays a fixed monthly charge to use a specified amount of data each month for a period of three years.</u></p> <p><u>For the handset, the entity recognises revenue when it has satisfied the performance obligation (ie when it provides the handset to the customer). For the provision of data, the entity recognises revenue as it satisfies the performance obligation (ie as the entity provides data services to the customer over the three-year life of the contract).</u></p> <p><u>The entity has concluded that revenue generated from these contracts is material to the reporting period.</u></p>
--

continued...

...continued

Application

The entity notes that for this type of contract there are two separate accounting policies for two distinct sources of revenue:

- (a) revenue for the sale of handsets; and
- (b) revenue for the provision of data services.

Having identified that revenue from contracts of this type is material to the financial statements, the entity assesses whether its accounting policies for revenue from these contracts are, in fact, material.

The entity evaluates the effect of disclosing the accounting policies by considering the presence of qualitative factors. The entity noted that its revenue recognition accounting policies:

- (a) were not changed during the reporting period;
- (b) were not chosen from alternatives in IFRS Standards; and
- (c) were not developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an IFRS Standard that specifically applies.

However, the entity's revenue recognition accounting policies relate to an area for which the entity:

- (a) has made significant judgements in applying its accounting policies, for example, in deciding how to allocate the transaction price to the performance obligations; and
- (b) has had to consider how the requirements of the Standard apply to its own circumstances.

Consequently, the entity concluded that disclosing the accounting policies for revenue recognition is likely to be necessary for the primary users of its financial statements to understand information in the financial statements and could reasonably be expected to influence those users' decisions. For example, understanding that some revenue is recognised at a point in time and some is recognised over time is likely to help users understand how reported cash flows relate to revenue. The entity therefore assessed information about the accounting policies for revenue recognition, including information about the timing of revenue recognition, as material.

Example T—materiality judgements on accounting policies that only duplicate requirements in IFRS Standards

Background

Intangible assets and property, plant and equipment are material to an entity's financial statements. In 20X1 the entity disclosed the following accounting policy relating to impairment of non-current assets:

The carrying amounts of the group's intangible assets and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at least annually.

An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In measuring value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not subsequently reversed. For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

continued...

...continued

Application

Having identified that assets that are subject to impairment testing are material to the financial statements, the entity assesses whether its accounting policy for impairment is, in fact, material.

The entity's impairment accounting policy relates to an area for which the entity is required to make significant judgements or assumptions as described in paragraphs 122 and 125 of IAS 1.

However, the entity noted that it also makes disclosures about its impairment assessments and its significant judgements and assumptions (for example, the discount rate used to measure value in use) in meeting the disclosure requirements of IAS 36 *Impairment of Assets* and paragraphs 122 and 125 of IAS 1. The entity therefore concluded that there is no material information to include in a description of its impairment accounting policy that is not disclosed elsewhere in the financial statements.

The entity concluded that disclosing a separate accounting policy for impairment would not provide information that could reasonably be expected to influence decisions made by the primary users of the entity's financial statements based on those financial statements. This is because the accounting policy does not contain entity-specific information and only duplicates the requirements of IFRS Standards. However, the entity is still required to comply with the specific disclosure requirements of IAS 36 and paragraphs 122 and 125 of IAS 1, and provide information about how it has applied IAS 36 and those paragraphs of IAS 1 during the period, if that information is material.

...

Appendix
References to the *Conceptual Framework for Financial Reporting*
and IFRS Standards

...

Extracts from IAS 1 *Presentation of Financial Statements*

...

Paragraph 117

Referred to in paragraphs 88A and 88C of the Practice Statement

An entity shall disclose its material accounting policies. Information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.

Paragraph 117A

Referred to in paragraph 88C of the Practice Statement

Accounting policies that relate to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed. Furthermore, not all accounting policies relating to material transactions, other events or conditions are themselves material.

Paragraph 117D

Referred to in paragraph 88C of the Practice Statement

If an entity concludes that an accounting policy is not material, the entity shall nevertheless disclose other information required by IFRS Standards if that information is material.

...

Approval by the Board of Exposure Draft *Disclosure of Accounting Policies* published in August 2019

The Exposure Draft *Disclosure of Accounting Policies* was approved for publication by 13 of 14 members of the International Accounting Standards Board. Mr Edelmann voted against its publication. His alternative view is set out after the Basis for Conclusions.

Hans Hoogervorst

Chairman

Suzanne Lloyd

Vice-Chair

Nick Anderson

Martin Edelmann

Françoise Flores

Amaro Luiz de Oliveira Gomes

Gary Kabureck

Jianqiao Lu

Takatsugu Ochi

Darrel Scott

Thomas Scott

Chungwoo Suh

Ann Tarca

Mary Tokar

Basis for Conclusions on the proposed amendments to IAS 1 and IFRS Practice Statement 2

This Basis for Conclusions accompanies, but is not part of, the proposed amendments. This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.

Background

- BC1 In March 2017 the Board issued the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to help it identify and address issues related to the disclosure of information in financial statements prepared applying IFRS Standards. One issue related to the disclosure of accounting policies.
- BC2 The Discussion Paper noted that:
- (a) users of financial statements often express concerns about how accounting policies are disclosed in the financial statements;
 - (b) paragraph 117 of IAS 1 requires entities to disclose their significant accounting policies; and
 - (c) stakeholders' views differ about what constitutes a significant accounting policy.
- BC3 The Discussion Paper explored an approach to address the concerns described in paragraph BC2 that would have introduced the following categories of accounting policy:
- Category 1*—accounting policies, disclosure of which are always necessary to understand information in an entity's financial statements, that relate to material transactions, other events or conditions;
- Category 2*—accounting policies that are not included in Category 1, but also relate to transactions, other events or conditions that are material to an entity's financial statements, either because of the amounts involved or because of their nature; and
- Category 3*—any other accounting policies used by an entity in preparing the financial statements (ie accounting policies not included in Categories 1 or 2).
- The Board's preliminary view, described in the Discussion Paper, was that both Category 1 and Category 2 accounting policies should be disclosed.
- BC4 Many respondents supported the Board's efforts to develop guidance for entities about which accounting policies they should disclose. However, they rejected the Board's categorisation of accounting policies as confusing and too prescriptive.
- BC5 Feedback suggested that the ineffective disclosure of significant accounting policies is primarily due to difficulties in applying the concept of materiality. This feedback came from stakeholders, including users of financial statements, many of whom agreed that materiality should be the basis of any

requirements about disclosure of accounting policies developed by the Board. Respondents thought it would be useful if the Board developed guidance on how to determine whether an accounting policy is material.

Proposed amendments

Replacing ‘significant’ with ‘material’

- BC6 The Board observed that one of the difficulties entities face is understanding the difference, if any, between ‘significant’ accounting policies and ‘material’ accounting policies. The Board considered developing a definition of ‘significant’ in the context of accounting policy disclosure. However, the Board concluded that this approach could have unintended consequences for other uses of the term ‘significant’ in IFRS Standards.
- BC7 Consequently, the Board considered whether an entity should instead apply the concept of materiality to accounting policy disclosures. The Board observed that an accounting policy considered in isolation would rarely be assessed as material to the financial statements. This is because information about an accounting policy considered in isolation would be unlikely to affect the decisions of users of financial statements. However, an accounting policy may be considered material when information about it is considered in combination with other information in a complete set of financial statements. In the Board’s view, an accounting policy would be material if its disclosure is needed for a user to understand information provided about a material transaction, other event or condition in the financial statements. This view is consistent with the application of materiality to other information. A single disclosure considered in isolation is unlikely to be judged material. However, when taken together with other information in the financial statements, that single disclosure may be assessed as material information. Thus, the Board concluded that the concept of materiality could be applied in making decisions about the disclosure of accounting policies.
- BC8 The Board therefore proposes to amend paragraph 117 of IAS 1. As amended, paragraph 117 of the Standard would require an entity to disclose its ‘material’ accounting policies rather than those that are ‘significant’.

Supporting paragraphs

- BC9 The Board has received feedback that:
- (a) accounting policy disclosures are useful to users of financial statements only when they:
 - (i) relate to material transactions, other events or conditions; and
 - (ii) provide insight into how an entity has exercised judgement in selecting and applying accounting policies; and
 - (b) users of financial statements do not find accounting policy disclosures useful when they:

- (i) contain standardised information, sometimes referred to as ‘boilerplate’; and
 - (ii) only duplicate or summarise the content of the recognition and measurement requirements of IFRS Standards.
- BC10 To assist an entity in determining whether information about an accounting policy is material to its financial statements and to address the feedback from stakeholders described in paragraphs BC5 and BC9, the Board proposes adding explanatory paragraphs to accompany the proposed amendment described in paragraph BC8. The proposed explanatory paragraphs:
 - (a) clarify that not all accounting policies relating to material transactions, other events or conditions are themselves material (see proposed paragraph 117A of IAS 1). For example, feedback from users of financial statements suggests that accounting policies that only duplicate the requirements of an IFRS Standard, and those that describe situations which do not require the exercise of judgement, are unlikely to influence the decisions that primary users of financial statements make on the basis of those financial statements (see paragraph BC9(b)). The Board is proposing this amendment to help entities eliminate immaterial accounting policy disclosures from their financial statements.
 - (b) identify circumstances in which an entity normally would conclude that information about an accounting policy is material to its financial statements (see proposed paragraphs 117A–117D of IAS 1). The Board is proposing this amendment to help entities determine whether information about an accounting policy is material.
- BC11 The Board also proposes deleting the description of what an accounting policy comprises from paragraph 117 of IAS 1. This deletion is to better enable preparers to apply judgement and disclose only that accounting policy information which is assessed as being material to the financial statements. For example, paragraph 117(a) of IAS 1 refers to the measurement basis (or bases) used in preparing the financial statements and might be interpreted to mean that an entity should always disclose this information. In many cases, information about the measurement basis (or bases) used in preparing the financial statements is material. However, in some circumstances the measurement basis (or bases) used for a particular asset or liability would not be material to the financial statements and therefore would not need to be disclosed. For example, a measurement basis might not be material if an IFRS Standard required entities to use it. Therefore entities would not apply choice or judgement in complying with the Standard.
- BC12 In developing the proposed amendments to IAS 1, the Board noted that the definition of material states that ‘materiality depends on the nature or magnitude of information, or both’. Consequently, the Board concluded it would be unnecessary to repeat such an explanation in the proposed amendments.

- BC13 The Board proposes to replace the concept of significance with the concept of materiality for determining whether an accounting policy should be disclosed. The Board does not propose to relieve an entity from meeting other disclosure requirements within IFRS Standards. For example, when applying the proposed amendments, if an entity decides that information about an accounting policy about intangible assets is not material to its financial statements, that entity would still need to consider all the disclosure requirements in IAS 38 *Intangible Assets* and determine whether the resulting information is material.

Amendments to IFRS Practice Statement 2 *Making Materiality Judgements*

- BC14 To support the proposed amendments to IAS 1, the Board also proposes amending IFRS Practice Statement 2 *Making Materiality Judgements* to illustrate how an entity could judge whether information about an accounting policy is material to its financial statements.
- BC15 In particular, the Board proposes adding guidance and examples to IFRS Practice Statement 2 to help entities apply its four-step materiality process to accounting policy disclosures. The guidance and examples support the proposed amendments to IAS 1 by:
- (a) clarifying that an accounting policy may be material by nature, even if related amounts in the financial statements are not material by size (see proposed paragraph 88C of IFRS Practice Statement 2).
 - (b) linking the application of materiality to accounting policy disclosures with the four-step materiality process described in paragraph 33 of IFRS Practice Statement 2 (see proposed paragraph 88C of IFRS Practice Statement 2).
 - (c) highlighting the need to focus on useful information for users of financial statements. In particular, the guidance and examples highlight the importance of information that:
 - (i) could reasonably be expected to influence users' decisions (see proposed paragraph 88C of IFRS Practice Statement 2); and
 - (ii) is needed to understand material information in the financial statements (see proposed paragraph 88C of IFRS Practice Statement 2).
 - (d) demonstrating how the four-step materiality process can address:
 - (i) standardised (or 'boilerplate') information disclosed about accounting policies material to the financial statements (see proposed Example S); and
 - (ii) accounting policy disclosures that contain only information that duplicates the requirements of IFRS Standards (see proposed Example T).

Amendments to other Standards and publications

- BC16 Other IFRS Standards sometimes require an entity to disclose an accounting policy. For example, paragraph 73 of IAS 16 *Property, Plant and Equipment* requires an entity to disclose the measurement bases used for determining the gross carrying amount of property, plant and equipment. Paragraph 31 of IAS 1 states that disclosure requirements in IFRS Standards are subject to the application of materiality—a disclosure that would otherwise be required by a Standard need not be provided if the information resulting from that disclosure is not material. Consequently, the Board concluded that existing requirements relating to accounting policy disclosures and the application of materiality in other IFRS Standards are consistent with the proposed amendments to IAS 1. In the Board’s view, amendments to other requirements in IFRS Standards are therefore not necessary.

Transition

- BC17 The Board’s view is that retrospective application of the proposed amendments would not be possible because the proposed amendments affect only the disclosure of accounting policies. Consequently, the Board proposes that entities apply the proposed amendments prospectively.

Likely effects

- BC18 The Board notes that the proposed amendments may have an initial cost to preparers as they change from applying the concept of significance to applying the concept of materiality to the disclosure of accounting policies. However, the Board believes the proposed amendments will help entities to identify and disclose all accounting policies that provide material information to users of financial statements and eliminate accounting policy disclosures that do not provide material information. The disclosure of material information and the removal of immaterial information should improve the relevance of the financial statements, and reduce the cost of preparing financial statements, by reducing the disclosure of large volumes of immaterial accounting policy information.
- BC19 Furthermore, the Board suggests the proposed amendments will support entities in removing immaterial accounting policy information that may obscure material accounting policy information.

**Alternative view of Mr Martin Edelmann on the Exposure Draft
*Disclosure of Accounting Policies***

- AV1 Mr Edelmann voted against the publication of the Exposure Draft *Disclosure of Accounting Policies* which proposes to amend IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.
- AV2 In Mr Edelmann's view, accounting policies should be disclosed if management believes the disclosure would assist users of financial statements in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Not all primary users of financial statements are accounting experts (see paragraph 2.36 of the *Conceptual Framework of Financial Reporting*). Hence, the disclosure of accounting policies could help them to better understand an entity's reported financial performance and financial position even if such accounting policies are not important enough to be assessed as material because they would not be expected to influence the investment decisions of users.
- AV3 Mr Edelmann suggests that, in some cases, accounting policies available from sources, such as IFRS Standards, should be disclosed because they may help users to better understand financial performance and financial position. Such disclosure may be useful when the accounting required by an IFRS Standard is particularly complex.

[Draft] Amendments to other IFRS Standards and publications

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 21 and B5 are amended. Paragraph 44EE is added. New text is underlined and deleted text is struck through.

...

Other disclosures

Accounting policies

- 21 In accordance with paragraph 117 of IAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses its significant material accounting policies ~~comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.~~ For the purpose of this Standard, material accounting policy information includes the measurement basis (or bases) used in preparing the financial statements that are relevant to an understanding of the financial statements.

...

Effective date and transition

...

- 44EE [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 21. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

...

Appendix B Application guidance

...

Other disclosure – accounting policies (paragraph 21)

- B5 Paragraph 21 requires disclosure of an entity's material accounting policies, including the measurement basis (or bases) used in preparing the financial statements ~~and the other accounting policies used~~ that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

...

DISCLOSURE OF ACCOUNTING POLICIES—PROPOSED AMENDMENTS TO IAS 1 AND IFRS PRACTICE
STATEMENT 2

Paragraph 122 of IAS 1 (as revised in 2007) also requires entities to disclose, along with its ~~significant~~ material accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Proposed amendments to IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Paragraph 34 is amended and paragraph 38 is added. New text is underlined and deleted text is struck through.

Disclosure

- 34 The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information:
- (a) a statement of changes in net assets available for benefits;
 - (b) a summary of ~~significant~~ material accounting policies; and
- ...

Effective Date

- ...
- 38 [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 34. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

Proposed amendments to IAS 34 *Interim Financial Reporting*

Paragraph 5 is amended and paragraph 60 is added. New text is underlined and deleted text is struck through.

Content of an interim financial report

- 5 IAS 1 defines a complete set of financial statements as including the following components:
- ...
- (e) notes, comprising ~~significant~~ material accounting policies and other explanatory information;
- ...

Effective date

- ...
- 60 [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraph 5. An entity shall apply that amendment in annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact. The amendment shall be applied prospectively.

Proposed amendment to Guidance on implementing IFRS 8 *Operating Segments*

Paragraph IG2 is amended. New text is underlined and deleted text is struck through.

Descriptive information about an entity's reportable segments

IG2 The following illustrates the disclosure of descriptive information about an entity's reportable segments (the paragraph references are to the relevant requirements in the IFRS).

...

Measurement of operating segment profit or loss, assets and liabilities (paragraph 27)

...

The accounting policies of the operating segments are the same as those described in the ~~significant~~ material accounting policies except that pension expense for each operating segment is recognised and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses.

...

Proposed amendment to Guidance on implementing IAS 1
Presentation of Financial Statements

Paragraph IG6 is amended. New text is underlined and deleted text is struck through.

Illustrative financial statement structure

...

- IG6 The examples are not intended to illustrate all aspects of IFRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, disclosures about ~~significant~~ material accounting policies and other explanatory information.

[Draft] Amendment to the Basis for Conclusions on IAS 1

IAS 1 *Presentation of Financial Statements*

A footnote is added to the words 'significant accounting policies' in paragraphs BC76C and BC76F.

- * [Draft] *Disclosure of Accounting Policies*, which amends IAS 1 and IFRS Practice Statement 2, and was issued in [date to be decided after exposure], amended paragraphs 117–122 of IAS 1 which now refer to 'material accounting policies'.



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EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Policy Approach to Developing the Suite of PBE Standards

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Approved by the XRB Board for application by the New Zealand
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Preface

1. In May 2013, the New Zealand Accounting Standards Board (NZASB) issued the PBE Standards – a new suite of standards for Tier 1 and Tier 2 public benefit entities. That initial set of standards, developed in accordance with the External Reporting Board's (XRB Board's) *New Zealand Accounting Standards Framework*, can be regarded as the "foundation suite" of PBE Standards. It is expected that the foundation suite will be enhanced and developed over time.
2. This *Policy Approach to Developing the Suite of PBE Standards* (the PBE Policy Approach) has been developed by the XRB Board and the NZASB to assist the NZASB in making consistent decisions when developing the suite of PBE Standards i.e. when considering enhancements and developments to the suite of PBE Standards in the future.
3. While primarily based on International Public Sector Accounting Standards, the foundation suite of PBE Standards was developed using a range of source standards: International Public Sector Accounting Standards, selected NZ IFRSs and domestic standards developed within New Zealand. Developments are likely to arise from each of these sources as changes are made to the international standards and as issues specific to New Zealand emerge.
4. Without a policy such as this, it would be possible for significant fluctuations in the NZASB's approach to developing the suite of PBE Standards to emerge over time. This PBE Policy Approach therefore provides constituents with some certainty about the likely future direction of the suite of PBE Standards, and provides a basis for assessing proposals for changes to the PBE Standards as they are issued by the NZASB. It also assists constituents to understand the likely implications of future changes to the suite of PBE Standards for public benefit entities (PBE) groups containing for-profit entities (commonly referred to as "mixed groups").

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Summary

The Development Principle

In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of the PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:

- (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit (NFP) PBEs, including public sector PBE groups and NFP groups, than would be the case if the development was not made; and
- (b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:
 - (i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS® Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;¹
 - (ii) *relevance to the not-for-profit or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;
 - (iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);
 - (iv) *the impact on mixed groups*; and
- (c) In the case of a potential development arising from the issue of a new or amended IFRS Standard, the IPSASB's likely response to the change (e.g. whether the IPSASB is developing an IPSAS on the topic).

Application of the Development Principle

The PBE Policy Approach includes a series of rebuttable presumptions in applying the development principle:

- (a) The NZASB will adopt a new or amended IPSAS.
- (b) The NZASB will not include an IFRS Standard that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.
- (c) In considering the impact on PBE Standards from a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB will consider the factors in the development principle in determining whether to initiate the development of a related change to the PBE Standards ahead of the IPSASB. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change and whether the IPSASB will address the change in an acceptable time frame.
- (d) The NZASB will not incorporate minor amendments to NZ IFRS into the equivalent PBE Standard in advance of the IPSASB considering the change. However, the

¹ This policy refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.

1. Introduction

1. The PBE Policy Approach addresses the NZASB's approach to developing and enhancing the suite of PBE Standards. References to PBEs in this Policy include references to all PBEs: public sector PBEs and NFP PBEs, and public sector PBE groups and NFP PBE groups.
2. Triggers for possible changes to the PBE Standards are likely to come from three sources:
 - (a) the IPSASB issuing a new IPSAS or a change to an existing IPSAS (section 4.1);
 - (b) the IASB issuing a new IFRS Standard or a change to an existing IFRS Standard (section 4.2); and
 - (c) domestic developments within New Zealand, including both exogenous events such as changes to the legislative framework and endogenous events where the NZASB considers that developments are warranted (section 4.3).
3. The PBE Policy Approach considers the implications of the *New Zealand Accounting Standards Framework* for developing the suite of PBE Standards and identifies an approach to be taken for each of the triggers for possible changes to PBE Standards.

2. Basis for Development of PBE Standards

4. The multi-standards approach in the *New Zealand Accounting Standards Framework* (issued in April 2012 and updated in December 2015) is designed to better meet the needs of users of the financial statements of PBEs.² Accounting Standards for Tier1 and Tier 2 entities are based on IPSAS.
 57. An explicit part of the multi-standards approach is the adoption of a set of accounting standards for PBEs other than one based on IFRS.
 58. The only set of international accounting standards, other than IFRS, is IPSAS. IPSAS provides a better basis for PBE reporting for entities in Tier 1 and Tier 2 than does IFRS because it is developed for a wider set of users, notably service recipients as well as resource providers.
 59. The XRB also considers that IPSAS is a credible set of standards. The historical concerns about IPSAS had been the lack of a conceptual framework and the lack of independent governance arrangements for IPSASB (at least compared to those applying to the IASB). These concerns have been addressed by both the IPSASB and the International Federation of Accountants (IFAC – the IPSASB’s parent body). The IPSASB issued its conceptual framework General Purpose Financial Reporting by Public Sector Entities in late 2014 and an independent governance body for the IPSASB has been established for the first time in 2015.
 60. However, the XRB continues to consider that it is premature to adopt “pure” IPSAS (in the way that NZ IFRS reflects “pure” IFRS). This is because, among other matters, the IPSAS is developed for public sector entities and the requirements are not always appropriate for not-for-profit entities or do not necessarily fit with the New Zealand regulatory environment. Moreover, IPSAS does not currently represent a complete set of standards. Therefore, a set of PBE Standards has been developed that uses IPSAS as their base. PBE Standards modify IPSAS for any recognition, measurement or disclosure matters considered inappropriate in New Zealand. Such modifications are only made where the IPSAS requirement in question has a material impact on the financial position or performance being reported, and that impact would adversely detract from the financial statements’ usefulness to users.
 61. Since the adoption of the initial Accounting Standards Framework, the XRB, in conjunction with its sub-Board, the New Zealand Accounting Standards Board (NZASB), has developed (and issued in September 2013) a *Policy Approach to Developing the Suite of PBE Standards* [footnote omitted]. The Policy Approach establishes an approach, based on a “development principle” and a series of “rebuttable presumptions”, which are used by the NZASB to determine whether, and when, to make changes to PBE Standards.
 62. PBE Standards include other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS.
 63. The PBE Standards are also modified to make them relevant, applicable and understandable to the not-for-profit sector preparers and users. Some modification is desirable to enhance their usefulness in the not-for-profit context.

(*New Zealand Accounting Standards Framework*, paragraphs 57–63)
5. The PBE Policy Approach uses the term “development” to encompass any change to the suite of PBE Standards.
6. In considering the appropriateness of potential developments of the suite of PBE Standards, it is necessary to consider these developments in the context of the *New Zealand Accounting Standards Framework*, including the impact of any

² The New Zealand Accounting Standards Framework is available at <https://www.xrb.govt.nz/reporting-requirements/accounting-standards-framework/>

developments on the quality of the financial reporting arising from those standards and the trade-off between the benefits of improvements in the quality of the resulting financial reports and the associated costs.

2.1 Quality of Financial Reporting

7. The suite of PBE Standards is designed to meet users' needs by providing high quality financial reporting by PBEs. It follows that any development of PBE Standards should aim to improve the quality of financial reporting. The quality of financial reporting relies on meeting the needs of users of PBE general purpose financial reports (including financial statements), while endeavouring to ensure that the costs arising from a development do not outweigh the benefits.
8. In this context, high quality financial reporting is assessed by reference to the conceptual framework for PBEs (as it applies from time to time), with primary emphasis on the objective of financial reporting and then the qualitative characteristics. A standard is more likely to lead to higher quality financial reporting if it adheres closely to the conceptual framework.
9. The categories of users of financial statements of PBEs and for-profit entities are different. Paragraph 1.2 of the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 NZ *Conceptual Framework*) identifies users of financial statements as suppliers of resources to the entity, and notes that the decisions that they make are related to providing resources to the entity.
10. In contrast, paragraphs 2.1–2.4 of the *PBE Conceptual Framework* (the New Zealand equivalent of the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*) considers a wider group of users of financial reports, being resource providers and service recipients and their representatives., and notes that information is needed for both accountability and decision-making purposes.
11. A development of the suite of PBE Standards will improve the quality of financial reports prepared in compliance with PBE Standards if it improves the accounting for specific transactions by better meeting the objective of financial reporting and the associated qualitative characteristics of financial reporting.
12. Further, high quality financial reporting depends on consistent treatment of similar transactions. For example, it would usually be inappropriate to require different measurement for similar liabilities in similar circumstances. As a result, any development of PBE Standards (including the conceptual framework for PBEs) should ensure that the suite is maintained as a coherent whole.
13. It follows that any developments should ensure that the needs of users are better met than they were prior to the development. Alternatively, the cost-benefit test (see next section) may be met where the needs of users are equally as well served, with a consequent benefit in some other way such as a reduction in the costs of preparing the financial statements.

2.2 Costs and Benefits

14. In considering a potential development of the suite of PBE Standards, the primary purpose and benefit is to improve the information provided to users of PBE financial reports.
15. Benefits need to be considered in relation to the suite of PBE Standards as a whole, in addition to the implications for a specific area of financial reporting. The benefit of aligning the PBE Standards with NZ IFRS to the extent possible is that this will reduce differences between the financial statements of PBEs and for-profit entities. This benefit is particularly relevant to entities that are members of mixed groups and users of PBE financial statements whose familiarity with financial statements arises from experience in the for-profit sector.³ However, for other preparers that are not part of a mixed group, there may be additional preparation costs as a result of changes in accounting standards that might not otherwise arise.
16. The PBE Standards are largely based on IPSAS in accordance with the *New Zealand Accounting Standards Framework* and, therefore, careful consideration is required before making any change to a PBE Standard based on an IPSAS in circumstances other than as a consequence of the IPSASB issuing a new or amended IPSAS (as discussed further below in paragraph 29). In addition, the benefit of using IPSAS to the extent possible is that IPSAS are a suite of standards that comprise a coherent package. It also reduces standard-setting costs as the IPSASB documents are readily available for application in New Zealand with little additional work. Reducing the time spent on setting the base standards releases resources for working with the international standard setters and for necessary domestic projects.
17. In developing a coherent suite of PBE Standards, it will generally be relatively low cost to add additional guidance for all PBEs, or for sub-groups of PBEs such as NFP entities. However, it is expected that recognition and measurement requirements will be common to all PBEs. Further, using recognition and measurement requirements developed from a number of sources creates the potential for inconsistencies within the suite of PBE Standards, such as applying different measurement requirements to similar liabilities. Care should be taken to minimise the impact of such inconsistencies, if they cannot be eliminated.
18. At times, there is a tension between reducing the costs borne by preparers within mixed groups – that is the elimination of differences between PBE Standards and NZ IFRS that are not sector specific – and improving the suite of PBE Standards taken as a whole. This Policy takes the view that reducing the costs on preparers within mixed groups should be considered to the extent that these costs can be reduced whilst meeting the needs of the wider range of users of financial statements of public sector PBEs and NFP PBEs (including public sector and NFP groups) through a complete and coherent suite of PBE Standards.

³ For the purposes of the PBE Policy Approach, a mixed group is a PBE group that includes at least one material for-profit subsidiary where that for-profit subsidiary applies accounting policies that differ from those of the mixed group and that may need to be adjusted under the consolidation standards.

3. The Development Principle

19. In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:
- (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP PBEs, including public sector PBE groups NFP PBE groups, than would be the case if the development was not made; and
 - (b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:
 - (i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;
 - (ii) *relevance to the NFP or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;
 - (iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);
 - (iv) *the impact on mixed groups*; and
 - (c) In the case of a potential development arising from the issue of a new or amended IFRS Standard, the IPSASB's likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).
20. The NZASB will need to exercise its judgement in balancing the factors in the development principle because, in many cases, there will need to be a trade-off between these factors. This policy provides a basis for making such a trade-off decision: it cannot replace the application of judgement by the NZASB with a series of bright-line rules.

4. Application of the Development Principle

21. The following sections are designed to assist in the application of the factors in the development principle. They consider, in turn, potential developments of the suite of PBE Standards that might arise from developments in IPSAS and NZ IFRS as well as addressing issues that might arise within New Zealand. Although the PBE Policy Approach treats each of these developments separately, it is likely that specific developments will need to be considered from a number of perspectives. For example, the NZASB may have planned to continue to update PBE IAS 34 *Interim Financial Reporting* in line with developments of NZ IAS 34 *Interim Financial Reporting* to retain consistent interim reporting across all sectors (section 4.2). However, if the IPSASB were to issue a standard addressing interim reporting, this new IPSAS would be considered as a development resulting from an enhancement to IPSAS (section 4.1).

4.1 New or Amended IPSAS

22. There is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS.

23. This rebuttable presumption is based on the expectation that the IPSASB has considered the needs of the wide range of users of public sector financial statements in developing and enhancing the suite of IPSAS. Therefore, it is expected that such changes will lead to higher quality financial reporting by PBEs in New Zealand and the factors in the development principle are presumed to be met.
24. Depending on the circumstances, it may be appropriate to apply one of the following approaches when a new or amended IPSAS is issued:
- (a) Amend a recently issued or newly amended IPSAS in the process of adoption in New Zealand. Examples of possible amendments include:
 - (i) improving the quality of the IPSAS in the New Zealand context by, for example, adding guidance or making changes to enhance the clarity and consistency of the requirements to enable public sector PBEs and NFP PBEs to apply the standard consistently;
 - (ii) adding guidance to assist NFP PBEs in applying the standard, given that the standard has been developed for application by public sector PBEs;
 - (iii) amending as necessary to maintain the coherence of the suite of PBE Standards;
 - (iv) excluding options that are not relevant in the New Zealand context; or
 - (v) amending the scope of an IPSAS if the IPSAS conflicts with a legislative requirement, or a legislative requirement addresses the same issue for public sector entities. However, in these circumstances, it may be appropriate to adopt the IPSAS for NFP PBEs.
 - (b) Rebut the presumption in paragraph 22 and thereby not adopt a new or amended IPSAS, or part(s) thereof. Given that PBE Standards are based

primarily on IPSAS, a decision to rebut the presumption is expected to occur only in exceptional circumstances. Examples of such circumstances include where the NZASB has significant concerns that, in the New Zealand context:

- (i) adoption of a new or amended IPSAS would not be either appropriate or relevant (based on the development principle); and
 - (ii) the costs of adoption of a new or amended IPSAS would outweigh the benefits.
25. In the event that the presumption to adopt a new or amended IPSAS is rebutted, this will require the NZASB to report to the XRB Board:
- (a) its decision and rationale for the decision; and
 - (b) what, if any, action(s) it plans to take in relation to the new or amended IPSAS, for example, whether a domestic standard will be developed and whether parts of the new or amended IPSAS will be incorporated into that domestic standard.

4.2 New or Amended NZ IFRS

26. New or amended NZ IFRS will require the NZASB to consider whether to initiate a development of the PBE Standards in the following circumstances:⁴
- (a) an IFRS Standard that the IPSASB has used as the basis for an IPSAS is changed;
 - (b) the IASB issues an IFRS Standard on a new topic; and
 - (c) there is a change to an NZ IFRS that has been used as the basis for a PBE Standard.⁵

4.2.1 *An IFRS Standard that the IPSASB has used as the basis for an IPSAS is changed*

27. As noted earlier, the PBE Standards are primarily based on IPSAS. In turn, many IPSAS are primarily based on IFRS Standards. Examples of such standards are PBE IPSAS 16 *Investment Property* and PBE IPSAS 17 *Property, Plant and Equipment*, which are based on IAS 40 *Investment Property* and IAS 16 *Property, Plant and Equipment*, respectively. Accordingly, there are likely to be many instances in which a new or amended NZ IFRS relates to a topic covered by an existing IPSAS standard that has been incorporated into the PBE Standards.

⁴ An amendment to an NZ IFRS can fall into more than one of the above categories, for example, an NZ IFRS on a new topic might also result in changes to other NZ IFRS that fall into category (a) and/or (c).

⁵ NZ IFRS that the NZASB has included in the suite of PBE Standards are:

- PBE IFRS 3 *Business Combinations*
- PBE IFRS 4 *Insurance Contracts*
- PBE IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*
- PBE IAS 12 *Income Taxes*
- PBE IAS 34 *Interim Financial Reporting*
- NZ IFRIC 12 *Service Concession Arrangements* and NZ-SIC 29 *Service Concession Arrangements: Disclosures* (which are the basis for PBE FRS 45 *Service Concession Arrangements: Operator*).

28. **In considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB will consider the factors in the development principle in determining whether to initiate a development of the PBE Standards. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change, including whether the IPSASB is expected to address the change in an acceptable timeframe.**
29. Given the presumption in paragraph 22 that any IPSAS issued by the IPSASB will be included in the PBE Standards, there are considerable potential costs and risks associated with "getting ahead of the IPSASB". Therefore, the NZASB needs to decide whether to develop a PBE Standard ahead of the IPSASB or to wait for the IPSASB's response. If the issue is already on the IPSASB's active work plan, the NZASB would normally wait for the IPSASB to complete its work, unless the NZASB is of the view that there is an urgent need for action in New Zealand or the NZASB is of the view that the IPSAS is unlikely to be appropriate in the New Zealand context.
30. **Furthermore, in the case of limited-scope amendments or amendments to an NZ IFRS that the NZASB considers are minor, there is a rebuttable presumption that the change should not be incorporated into the equivalent PBE Standard in advance of the IPSASB considering the change.** This is because minor amendments are less likely to meet the cost-benefit test, particularly when the potential costs and risks associated with getting ahead of the IPSASB are taken into account. However, the NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.
31. Where there is a major change to an IFRS Standard for which there is an existing IPSAS and where the IPSASB is unlikely to address the change in an acceptable time frame, the NZASB could either develop a domestic modification to the PBE Standard or assist the IPSASB to develop an IPSAS. Options for assisting the IPSASB include offering to provide staff resources for the IPSASB or partnering with the IPSASB to update a specific IPSAS in the light of the major change. It may be more effective to assist the IPSASB because any uncertainties about the IPSASB's approach to the issue will be resolved sooner rather than later. However, the level of effort required to develop an IPSAS based on an IFRS Standard for international use is likely to be significantly higher than developing a PBE Standard based on an IFRS Standard or its equivalent NZ IFRS for use in New Zealand. The IPSASB's due process, multi-constituency reach and less regular meetings leads to a standards development process for the IPSASB that is more time consuming and complex.

4.2.2 The IASB issues an IFRS Standard on a new topic

32. An example of a new topic is where the IASB is considering issuing a standard on rate-regulated activities.

33. There is a rebuttable presumption that the NZASB will not include an NZ IFRS that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.

34. As noted in paragraph 26, some NZ IFRS were included in the suite of PBE Standards to maintain current practice until the IPSASB addresses the related issues. This rationale does not apply to an NZ IFRS on a new topic. Also, given the PBE Standards are primarily based on IPSAS in accordance with the *New Zealand Accounting Standards Framework*, adding further PBE Standards based on NZ IFRS is unlikely to be consistent with the objectives of that Framework.
35. In considering whether to rebut the presumption, the NZASB should consider whether the new standard both leads to a major improvement in the quality of financial reporting and fills a gap in the suite of PBE Standards (as distinct from a gap in NZ IFRS). This is unlikely to arise.

4.2.3 An NZ IFRS that the NZASB has included in the PBE Standards is changed

36. The NZASB has included selected NZ IFRS in the suite of PBE Standards (see footnote 7) in order to maintain current practice until the IPSASB addresses the related issues.
- 37. In considering a change to an NZ IFRS that is included in the suite of PBE Standards, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards.**
38. However, in situations where there is no equivalent IPSAS on the topic and the IPSASB is not expected to create such a standard in the foreseeable future, the IPSASB's likely response to the change would be less relevant. This will impact on the overall assessment of the costs and benefits of including the NZ IFRS development in the PBE Standards. This is because the potential problems associated with "getting ahead of the IPSASB" (as discussed in paragraph 29 above) are less likely to arise.
39. An implication of this policy is that those PBE Standards based on an NZ IFRS (see footnote 7) may need to be updated or replaced to align with the current equivalent NZ IFRS.

4.3 Domestic Developments

40. Domestic developments include developing standards to meet specific requirements in New Zealand.
41. The suite of PBE Standards contains standards directly addressing issues relevant to New Zealand, including PBE FRS 42 *Prospective Financial Statements*, PBE FRS 43 *Summary Financial Statements* and PBE FRS 48 *Service Performance Reporting*. Further domestic standards may be developed where a need arises when an issue of importance in New Zealand is not addressed in a standard issued by the IPSASB (section 4.1) or the IASB (section 4.2).

- 42. In determining whether to initiate the development of a domestic standard for inclusion in the PBE Standards, the NZASB will consider the factors in the development principle. Assuming the NZASB determines that the development of a domestic standard would improve the quality of financial reporting by PBEs, the NZASB will first consider whether there is an international pronouncement addressing the relevant issue that is applicable in the New Zealand context.**
43. The *New Zealand Accounting Standards Framework* presumes that New Zealand will be a standards taker rather than a standards maker whenever possible, for a range of reasons, including:
- (a) the quality derived by an international due process;
 - (b) the prospect of international comparability; and
 - (c) the limited resources available for the domestic development of standards.
44. It follows that the NZASB will develop domestic standards or guidance that result in a material improvement in information available to users of financial statements when:
- (a) there is no other source of material available internationally; or
 - (b) the available international guidance is not targeted specifically towards addressing New Zealand issues.